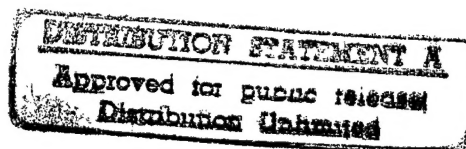


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23 OCTOBER 1991



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CONTENTS

23 October 1991

BULGARIA

Deputy Chief Prosecutor on Democratic Process [VEK 21, 4 Sep]	1
Restructuring, Privatization of Balkankar [DELOVI SVYAT 16 Sep]	2
Views of Spasov, Head of Ecclesiastical Affairs [POGLED 9 Sep]	4

CZECHOSLOVAKIA

Objections to Treaty With Germany Countered [OBCANSKY DENIK 2 Oct]	7
Commentary on Carnogursky, Miklosko Protest	7
Recommendation by Slovak Government [LIDOVE NOVINY 27 Sep]	7
Czech Objections Summed Up [LIDOVE NOVINY 27 Sep]	7
Main Provisions of Referendum Bill Explained	8
Short Summary of Bill [LIDOVE NOVINY 27 Sep]	8
Relevant Stipulations Mentioned [MLADA FRONTA DNES 26 Sep]	8
Legal Expert Queried [LIDOVE NOVINY 28 Sep]	9
Referendum Defended as Meaningful [LIDOVE NOVINY 2 Oct]	10
Implications of Europe's Division in East, West [OBCANSKY DENIK 2 Oct]	11
Historian on Demands for Slovak Sovereignty [MLADA FRONTA DNES 26, 27 Sep]	11
Association of Economists for Slovak Sovereignty [NOVY SLOVAK No 38]	13
Envoy Views Trade Relations With USSR [HOSPODARSKE NOVINY 18 Sep]	14
Republics' Contributions to Federation Compared [MLADA FRONTA DNES 17 Sep]	16
Savings, Loan Problems Discussed [REPORTER 12 Sep]	18

HUNGARY

Constitutional Court's Decision on Presidency [MAGYAR HIRLAP 24 Sep]	21
Woerner Remarks Quoted by Visiting Journalist [FIGYELO 26 Sep]	24
1990 Political Party Finances Summarized [FIGYELO 26 Sep]	25
Eminent Domain Rules To Be Revised [FIGYELO 26 Sep]	27
Finance Ministry on 1992 Budget, Convertibility [FIGYELO 26 Sep]	29
1990 Budget Performance Report Criticized [FIGYELO 26 Sep]	29
Codifying Tasks; Corporation Law To Be Amended [FIGYELO 26 Sep]	31
Bill To Halt Cooperative Privatization Criticized [FIGYELO 19 Sep]	32

POLAND

Sejm Accepts Amendments to Military Laws [RZECZPOSPOLITA 30 Sep]	35
Future of Housing Privatization Viewed [RZECZPOSPOLITA 21-22 Sep]	37
Prospects for Currency Devaluation Discussed [GAZETA BANKOWA 22-28 Sep]	38
Need for Improvement of Bank Supervision Voiced [GAZETA BANKOWA 22-28 Sep]	39
Development of Small Manufacturing Detailed [RZECZPOSPOLITA 18 Sep]	41
More on August Economic Indicators [RZECZPOSPOLITA 21-22 Sep]	43
Statistics for 1990 Production Presented [GAZETA BANKOWA 15-21 Sep]	44
Difficult Situation in Rural Areas Noted [RZECZPOSPOLITA 21-22 Sep]	45
Farming Machinery Industry Facing Bankruptcy [RZECZPOSPOLITA 18 Sep]	46

YUGOSLAVIA

Repressive Serbian Policy Attacked [REPUBLIKA 16-30 Sep]	49
Slovene President Interviewed on Peace Efforts [NEODVISNI DNEVNIK 21 Sep]	50
Slovenia Blamed for 'Lebanonization' of Croatia [NEDELJNA BORBA 21-22 Sep]	52

Anti-Serb Statements of Bosnia Foreign Minister	[JAVNOST 14 Sep]	54
Serbian Journalists' Plight Under Totalitarianism	[REPUBLIKA 16-30 Sep]	54
Effectiveness of Slovene Territorial Defense Cited	[DELO 4 Oct]	55
Wartime Economic Trends Reviewed	[EKONOMSKA POLITIKA 23 Sep]	57
Bosnia-Herzegovina War Economic Damages	[BORBA 30 Sep]	59

Deputy Chief Prosecutor on Democratic Process

91BA1123A Sofia VEK 21 in Bulgarian 4 Sep 91 pp 1, 4

[Interview with Deputy Chief Prosecutor Petur Kostov by Asparukh Panov; place and date not given: "Is the Public Prosecutor's Office Participating Actively in the Democratic Process?"]

[Text] [Panov] Mr. Kostov, after the retirement of the chief prosecutor, Mr. Martin Gunev, you are performing his duties temporarily. Have you already assumed your new duties?

[Kostov] The retirement of Mr. Gunev has not been accepted. I have partially assumed some of his duties since he continues to exercise his legal rights as chief prosecutor—he signs indictments and other documents, listens to information on the course of investigations, and makes recommendations accordingly.

[Panov] Have the preliminary proceedings initiated against parties guilty of serious economic and ecological catastrophies produced a result? Have the accused parties been arrested and who are they? I am posing this question to you because I know that the legally established six-month period of investigation has passed.

[Kostov] A fair amount of time has passed since these cases were initiated. They are being directed and supervised directly by the chief prosecutor. With respect to the matter of the economic crisis, written and oral evidence has been gathered, and witnesses have been questioned. A great amount of material has been gathered and has been presented to the appointed economic experts. Financial reviews, which have not yet been completed, also have been instituted. Their findings have exceptionally great significance for the case. Unfortunately the parliamentary commission on the causes of the economic and political crisis of the Grand National Assembly has not yet issued an official report of its findings.

In spite of the fact that more than nine months have passed since the initiation of the preliminary proceedings, no charges have been brought against specific persons. Personally I am disturbed by the fact that the case is becoming an expert doctrinaire pursuit. I think that it is high time to begin the evaluation of the evidence that has been gathered in relation to the specific subject of the investigation. The prosecutors from the Chief Prosecutor's Office, Dimitur Chavdarov and Kamen Sitnitski, who conducted the investigation of the ecological crisis, are bringing it to a close without finding any one person guilty. Abundant evidentiary material also has been gathered concerning this matter. Personally I consider that it should be reevaluated so that a conclusion may be reached even if no one is guilty, as is suggested now.

[Panov] A number of facts concerning the active participation of prosecutors in the revival process (1984-89) and in different political processes have been reported in

the mass media. More specifically, information on the very active participation of the district prosecutor of Sliven, Ms. Dina Zhelyazkova, in the revival process was published in the newspaper DEMOKRATSIYA. There is also similar information concerning the district prosecutors of regions with a predominantly Turkish population. I am interested to know if all of them are still working in the Prosecutor's Office? And there is one more thing in this regard. The illegal arrests of Dr. Trenchev, Nikolay Koleya-Bosiya, and Father Khristofor Subev in 1989 are well known to the public. During this period District Prosecutor Krasimir Milev gave interviews on Radio Free Europe and in our press, and the inquest was supervised by Mr. Platikanov. Are these prosecutors still working in the Prosecutor's Office?

[Kostov] Actually, the Prosecutor's Office has not determined if prosecutors who actively participated at the time in reinforcing the totalitarian system can continue to exercise their duties. No staff changes have been made on this basis.

[Panov] According to one of the clauses of the political agreement between the political forces, the authorities of the Prosecutor's Office should have specified the illegal sources of funds (money and property) for the formation of party companies in the country and abroad. The press has published numerous reports concerning companies of the Bulgarian Socialist Party and the BDM [Bulgarian Democratic Youth] created with funds from the government budget. (It is well known that the government subsidized the Bulgarian Communist Party and the Dimitrov Communist Youth Union up to and including 1990.) What is the result of the actions of the Prosecutor's Office in this regard?

[Kostov] This question is in the area of the duties of the other deputy chief prosecutor, Mr. Dimitur Dimitrov, and of the chief prosecutor. I know that the "illegible" department of the Chief Prosecutor's Office was ready to organize and complete these examinations. I do not know if this is not being done for some reason.

[Panov] With respect to the suit brought by the minister of finance, Mr. Ivan Kostov, and correspondingly the case which has been brought to court, does a representative of the Chief Prosecutor's Office participate in defending the national and public interests?

[Kostov] Up to now the Prosecutor's Office has not taken part in the examination of the suit of the minister of finance, either in the discussion of the matter in the civil court, or in the Supreme Court. Personally I always have considered that the interests of the state and society are very great here, and by all means we should take part in accordance with the requirements of Article 27 of the Civil Code of Procedure.

[Panov] We have all witnessed that some Soviet deputies took part in the unsuccessful attempt at a coup d'état. In spite of the exceptionally serious nature of their crime,

they were arrested and action is being brought against them **ONLY AFTER THE REMOVAL OF THEIR IMMUNITY AS DEPUTIES**. In this regard, I am interested if action has been taken against the people who ordered the assault on the deputies on 12 July of this year, which grossly violated their deputy's immunity?

[Kostov] The Prosecutor's Office of the Armed Forces has instituted preliminary proceedings in this case.

[Panov] One last question. What is your general evaluation of the work of the Chief Prosecutor's Office during this important period of democratic changes in the country?

[Kostov] I do not feel satisfied with the work that has been performed. In many cases things are going slowly. Important problems, which are of significance for the development of the democratic processes in the country, are not being acted upon rapidly and categorically. It is obligatory to continue the process of attracting and promoting prosecutors who are able to meet the requirements of the new times and to work to strengthen democracy. The police authorities and the Chief Prosecutor's Office play a very important role in the struggle against crime. Also it is necessary for them to make a radical change in their work with respect to the timely discovery and prosecution of crimes.

[Panov] Mr. Prosecutor, I thank you for accepting the invitation for this conversation. I fully share your dissatisfaction with the unclear position of the chief prosecutor, with the sluggishness with which the circumstances around the investigatory matters awaited for with great interest are explained, and with the lack of changes both in staff policy and in the entire style of operation of the Prosecutor's Office. Today, immediately before the new parliamentary elections, both society and the political forces expect the chief prosecutor to be transformed into a guarantor of democratic changes. Your lack of party affiliation, impartiality, objectivity, and active participation in the democratic process should help the changes in the system and should return confidence in this national institution which is so important for any constitutional government.

Restructuring, Privatization of Balkankar

91BA1178A Sofia DELOVI SVYAT in Bulgarian
16 Sep 91 pp 1-2

[Article by Mariana Khristova: "Arguments in Favor of the Balkankar Transaction"]

[Text] Initial studies were undertaken in June 1990 and in November 1990. A contract was signed between the American Morgan and Stanley Investment Bank and one of the most renowned Bulgarian companies, Balkankar, on cooperation in the drafting and implementation of an eventual transaction involving our company. In March 1991 the assessment study conducted by the British Ernst and Young Company, commissioned by the American bank, was completed.

However, the expectation that the Council of Ministers would study the report and the specific proposals on the transaction in April of this year were not met. After changes in the views held by some ministers and by the government itself, which were of a "dramatic" nature (to Balkankar), the firm did not become "demonopolized" as per PMS [Council of Ministers letter] No. 54 of 1991. Initial discussions were held on 12 July between the government (D. Ludzhev and I. Pushkarov) and Morgan and Stanley representatives. But by the end of last week, the eight-week deadline in the operation, the first of its kind in our country, expired....

So far, this entire study and analysis activities has caused Balkankar some \$220,000. Should the transaction take place, Morgan and Stanley would be paid a certain percentage of the amount, i.e., they too are interested in a better price for our company from the exchange. Since privatization is an important project and affects all of us, we submit to your attention some basic aspects of the studies made by Morgan and Stanley, which would explain why this operation is needed and how precisely it will take place.

Excerpts From Morgan and Stanley Reports and Studies

From the day of its creation in 1957 and to this day, Balkankar has experienced a number of "reforms." From 80 plants employing 60,000 workers, today it consists of 16 enterprises employing 16,648 people.

In 1990 Balkankar sales dropped to 58,000 cars, from 82,000 in 1989. Let us add to this the increased costs. Such negative trends will continue in 1991. This was despite its privileged access to the markets of the former CEMA, where it had a good distributorship network, and a 68-percent share of the market. The company also holds relatively good positions with small Western clients and the newly developed industrial countries, with its standard models which it offers at attractive prices.

The quality of the goods produced by Balkankar has not always been on the required high level. Some of the plants make inefficient use of their industrial equipment and maintain a low standard of productivity. Their equipment is obsolete and so are their production processes.

Main Future Targets

- What is most important to the future development of the business is the existence of hard currency for ensuring the Balkankar investments in new enterprises and equipment.
- The intentions of the company are to enhance its production standard by introducing products with a new design, production know-how, and technology. This too will improve product design and quality.
- The company is trying to gain new markets and maintain its share of the market under the conditions of a

steadily growing competition in East Europe, through products designed and produced by Balkankar.

- Improving incentives for the personnel by providing possibilities of purchasing stock, and raising salaries. This will be a key factor in improving the level of efficiency and ensuring the steady loyalty to the company.
- Considering the deep recession in the global car industry, the company is trying to maintain its present turnover and a minimum of 75 to 80 percent of its personnel.

The high level leadership of Balkankar and the group of consultants are of the opinion that such objectives can be achieved best and that, consequently, the success of Balkankar in the long term could be best guaranteed by privatizing the company.

The investment areas as defined by high-level personnel include investments which are needed for purposes of quality control (hardware and software); new component lines, with a view to increasing the sale of components to other producers; an advertising campaign of three to five years, which would achieve a uniform concept of the company throughout the world; a distribution center in West Europe, which would meet current requirements for fast and responsible supply of spare parts to customers. The total cost of such investments is currently expected to be \$60 million.

The successful privatizing of Balkankar (which is one of the biggest Bulgarian companies) will prove that the state is firmly committed to the implementation of the current economic and political reforms. This will constitute a significant step in achieving the objectives proclaimed by the state.

Access to foreign capital, which will be obtained as a result of the transaction structure, will reduce any dependence on the present banking system and will be positively reflected in the balance-sheet profit.

The Bulgarian State will own a minimal share of Balkankar, about 10 percent.

As a result of the privatizing of Balkankar, the company's management and executives will be given an initial share (about 5 percent) of the new company. Furthermore, an additional share capital (not to exceed about 15 percent) will be distributed over the next five years, reaching a maximal total packet of shares to be determined at a suitable time.

The additional shares shall be qualified as capital, controlled by a commercial bank or an association of banks, to be issued to the entitled officials in the future.

Essential Elements of the Procedure

- On the basis of a resolution issued by the Council of Ministers on implementing the transaction, with the assistance of Morgan and Stanley, Balkankar will initiate contacts with selected potential foreign partners,

based on a confidential agreement, in determining their interest in purchasing a share of Balkankar.

- The interested group will be provided with a significant amount of confidential information, which will enable it to make its own strategic and price decisions. The potential partner, if such can be found (and which, in the view of the Balkankar and Morgan and Stanley leadership, would be in the best position to help both Balkankar and the state attain their targets) will be chosen. Other important elements pertaining to Balkankar and the Bulgarian economy will be taken into consideration such as, for instance, the views of the foreign partners concerning the future of the present company's manpower.
- Talks will be held to determine the definitive organizational structure and conditions.
- In connection with the founding of a new mixed corporation with limited liability, the constituent contract and the bylaws of the company must be registered with the court. There must be candidates for all shares and the administrative and control councils must consist of the main shareholders. The foreign partner must subscribe to most of the issued stock.

List of Likely Partners

Linde (German):

- A company which has shown a profit over the past 10 years (successful).
- Has the necessary size and financial possibilities.
- Its strategy is to develop raw material processing.
- Will consider Balkankar as a means in the struggle against Nakko, Toyota, and other Japanese companies.
- Being a German company, it will consider East Europe as "natural solution."

Nakko (United States):

- Profitable; has the necessary financial possibilities and critical mass.
- A declaration that it would like to become number one through an association.
- Seeks work and expansion in Europe and Asia.
- Declared interest in Balkankar.

Fiat:

- An old "player" in the system.
- Experience in East Europe.
- Currently concentrating on its main production activity.

Junghairich:

- Old “player” in West Europe.
- May be interested in becoming “leading” in business.
- Occupies a specific “niche” in the production process. Clark (United States):
- It is still dealing with the “absorption” of Drexel.
- It is increasingly distancing itself from assembly work—its contract with Samsung.
- Limited operations in Europe (Italy, Belgium, and FRG), etc.

Views of Spasov, Head of Ecclesiastical Affairs

92BA0001A Sofia POGLED in Bulgarian 9 Sep 91 p 5

[Interview with Metodi Spasov, chief of the Ecclesiastical Affairs Directorate, by Alekseniya Dimitrova; place and date not given: “A Church in Which People Commit Suicide or Make Dishonorable Deals Is Either Outside the Law or Threatened With a Split”]

[Text]

Revealing the Fourth Power?

What would happen if your child commits suicide or if someone sells out the church you attend? It seems that that is precisely what happened recently, judging by the rumored suicide of a young man about which it is being said that it was triggered by religious motivations and by the dishonorable sale of Bulgarian church property in the United States.

These dramatic events did not surprise the people who are speaking of stagnation in the Bulgarian Orthodox Church, and the penetration of other religions. To other people, however, this does not seem normal.

For the past four months the dilemma spelled out in this subheading is facing Metodi Spasov, who used to be a practicing lawyer, unrelated to the church professionally. He subsequently was mayor in the provisional municipal leadership and is now chief of the Ecclesiastical Affairs Directorate. What will occur subsequently, in his view, within the fourth Bulgarian power?

[Dimitrova] Let us start with the suicide of a young man, which is being rumored in Sofia. It is being said that this did take place and it was done to obey the commands of the god Krishna. If this is true, should someone not be prosecuted as per Article 127 of the Penal Code for instigating suicide?

[Spasov] We received the complaint of a mother that her daughter had been “kidnapped” by the Krishna people. She dropped out of school, went into meditation, and has been avoiding all obligations. I answered the mother in a letter that this faith had not been officially registered in our country. According to the law it is only faiths

which do not conflict with Bulgarian laws, public order, and good mores that can be registered. Whereas good mores may be a subjective concept, the laws are not.

We informed the Krishna Religious Society in writing to provide us with their bylaws, in which they would describe in detail their faith, structure and religious services, and their attitude toward society and the laws. I do not know why they failed to do so; probably they must have some reasons to avoid this. However, that was the reason for which we did not register them.

To the best of my knowledge, they are not considered a religion in West Europe because of the extravagant attitude toward society which they preach. It is claimed that they reach a state of intoxication which may last a few weeks, during which they do not work.

[Dimitrova] What happens if, although they are outside the law, they continue to collect “victims”? Who should try them?

[Spasov] I addressed the letter to the MVR [Ministry of Internal Affairs] as well, reporting to them that we have not registered this faith and that, consequently, its activities are illegal. I have heard of the appearance of other religious groups, some kind of occult faith in Varna, sects in “Mladost,” and some Moon associations. Recently, an evangelical church reported to us that it will register only after the new law has been promulgated. This is their right. However, the MVR has the right to penalize them.

[Dimitrova] Is this a right or an obligation? Actually, who should refer the matter to the prosecutor's office?

[Spasov] The MVR, for it is in charge of maintaining public order.

[Dimitrova] Do parents have the right to file claims?

[Spasov] Naturally. A moral damage has been caused, which would also be qualified as a property damage.

[Dimitrova] How many legal religious faiths are there currently in Bulgaria?

[Spasov] Sixteen. The largest is the Bulgarian Orthodox Church. The second largest is Islam. According to very approximate data, there are about 800,000 Muslims, including the Pomaks. There are about 60,000 members of the Roman Catholic Church, which has there dioceses: Sofia, Sofia-Plovdiv, and Nikopol, with seat in Ruse. The Evangelical Methodist Episcopal Church, with headquarters in Sofia, has about 1,000 members. The Bulgarian Church of God, in Sofia, has 19,000 members and about 6,000 sympathizers. The Union of Evangelical Ecumenical Churches in Bulgaria has about 4,000 believers. The Church of Seventh Day Adventists-Reformed has about 70 members. The Armenian Apostolic Church, with headquarters in Sofia, has about 2,500 members. The Church of Jesus Christ of the Latter-Day

Saints is registered with about 70 members. A very new faith is the Open Biblical Brotherhood, with four members. The Union of Evangelical Pentecostal Churches, with headquarters in Sofia, has about 25,000 members. The Church of the Seventh-Day Adventists has about 3,700 followers. The Bulgarian Evangelical Church of God, with headquarters in Plovdiv, has between 200 and 300 members. The Union of Evangelical Baptist Churches, with headquarters in Sofia, has about 1,500. We have no data about the Spiritual Society of the Universal White Brotherhood, the former Dunovists. The Jewish faith, with headquarters in Sofia, has about 3,000 members. The data I mentioned were provided by the churches themselves.

[Dimitrova] Do you have data showing what is the current membership of the Bulgarian Orthodox Church?

[Spasov] They should be about 7.5 million. This presumed figure is obtained by excluding from the total size of the population the other religious faiths. There are atheists, but their numbers are increasingly declining. This is confirmed by a mass return to the church, with its services and rituals. Many people among the elderly would like to be baptized, not to mention to have their children baptized.

[Dimitrova] Are you convinced that all those people are truly believers and not simply people seeking a social safety valve? In Poland, for example, at the start of the 1980's, there was a tremendous rush to the church. However, without missing a mass, many people, as they came out of the church, could deprive of his wallet the first person they came across....

[Spasov] Yes, the people are still unaware of the significance of sin in its Christian interpretation. Theft is related only to the fact that it is forbidden by the law and the authorities. They do not believe that they are violating some kind of superior law by committing murder or fraud.

[Dimitrova] Do you think that the people tell themselves the following: If those people way up in the church commit sins and no one punishes them, why should I not commit a sin? I am referring to the compromised image of the Bulgarian Orthodox Church. Almost everywhere after 10 November there was some kind of movement, whereas in our church, for nearly almost two years, nothing has budged. What are your rights concerning the resignations of Patriarch Maksim and other high members of the clergy, a resignation which was demanded in the course of the visit of the patriarch, and at some meetings?

[Spasov] A number of people believe that the Bulgarian church has been infiltrated by enemies, by agents. This is probably true, for it includes people who were assigned to it by the Komsomol or penetrated it along party lines. Speaking with them, one cannot understand whether they are members of the clergy or not. Not a single church was built in the past. However much the authorities suppressed religion, they would have had to allow

the building of one or two churches, had the Holy Synod insistently raised the question. How did it happen that the biggest church on the Balkan Peninsula was built in Belgrade?

In general, the Holy Synod remained idle. It did not feel any inner need to show up publicly, to describe the reasons for the deformations and its attitude toward the party that crushed it. Its members have always been guided by the idea that one should think slowly and decide wisely. However, these people have been thinking for the past 45 years and they have provided no answers.

In Smolyan, for example, there is no Bulgarian church at all: There are neither churches nor priests. Yet the people would like to go back to religion. In the past there was a Smolyan Parish. I have already filed a request to the Holy Synod for it to be restored. Of late Bulgarian Muslims have begun to convert to Christianity and to seek the protection of the Roman Catholic Church, for the Bulgarian Orthodox Church is not interested in them. Does this not provide adequate grounds for the establishment of a Smolyan Diocese?

[Dimitrova] The reasons are adequate. On whom does this depend?

[Spasov] On the Holy Synod. However, the synod is doing nothing. It failed to make a decision at its recently held regular session, which took 45 days. However, I have no right to appoint or dismiss the Holy Synod without any proven violations of the law.

[Dimitrova] Why was the national church assembly, which was to be held last autumn, and which may have accomplished this, postponed? This was in violation of the law which requires an assembly each four years. Such an assembly has not been held for an entire 40 years!

[Spasov] The commission which was in charge of preparing this assembly is totally inactive.

[Dimitrova] Have you already met with the patriarch?

[Spasov] Several times.

[Dimitrova] Did you ask him about the postponed assembly?

[Spasov] Yes. The director for ecclesiastical affairs has no right to appoint or dismiss church officials. However, he has the right to demand that the laws and bylaws be observed. In this case, they were violated. In the course of several discussions I asked the patriarch this question and we determined that the people's church assembly should take place after the parliamentary elections.

[Dimitrova] This topic may not have been particularly pleasing to the Holy Synod, since it threatens its power.

[Spasov] I do not know. It is a fact, however, that so far no assemblies have been held. This proves that the Holy Synod remained totally inactive. It had the power, a good income, cars, a retinue, and travels abroad. The

authorities left them alone. Now these people are being asked to act, to restore the positions which were lost, to build, to increase the number of clergymen and monks. In general, a number of problems are arising and the peace of these people is being disturbed. Who is pleased by having his peace disturbed?

[Dimitrova] Not only the peace. There were a number of articles written, including some in POGLED, which raised the question of possible financial corruption. If such financial violations can be proved, some people may be prosecuted. Who could appoint an independent financial audit which has not been made for the Holy Synod for quite some time?

[Spasov] The audit began 20 days ago. For the time being, I am dissatisfied, for the Ministry of Finance has assigned only one official for whom it would be difficult to cover all areas. My idea is to appoint financial audit teams.

[Dimitrova] Will this audit deal with the sacrilegious sale of the Bulgarian church in the United States? Where did the money go? I recently met with a Bulgarian woman who lives there. She was crying out of pain and helplessness at Bishop Yosif's arbitrariness. She told me that the Bulgarians living in Akron were strongly attached to the church, and that its sale caused incredible disturbance in the colony.

[Spasov] I am planning an audit of the American-Australian Diocese as well. Indeed, the sale you mentioned is in violation of the law. I intend to hold liable the culprit, even if he is of the highest rank. Article 12 of the Law on Ecclesiastical Affairs gives me the right to do so. It is not right to keep there a person who does not contribute anything to the unification of the Bulgarians. Before building their own homes many of them set funds aside to build public buildings. Meanwhile, others were hastily selling them. In a private conversation, Bishop Yosif told me that he intends to sell other property as well, in New York, but was waiting for a better market. I shall do everything possible to oppose this intention.

[Dimitrova] Do you have any information as to the amount for which that church was sold? Could it have been \$100,000 to \$200,000? Where did the money go?

[Spasov] No. The financial audit will probably clarify the matter.

[Dimitrova] In my view, removing someone from power is the least punishment for such a sin. Will you sue?

[Spasov] Naturally, if we come across misappropriations.

[Dimitrova] Final question about finances: Does the church receive funds from the state budget?

[Spasov] Very little, and even that was reduced. In any case, less than what is given to the Muslims. This is an inherited situation.

[Dimitrova] Is this not absurd? Is this based on special considerations?

[Spasov] We can see that the state is in difficulty. We shall consider the problem.

[Dimitrova] To go back to conflicts within the Bulgarian Orthodox Church abroad. To the best of my knowledge, such conflicts exist not only in the United States, but also in Germany and Australia?

[Spasov] Yes, there have been dozens of complaints in Melbourne. The people have requested that the priest be replaced for a variety of reasons and not only because they suspect that he was sent there for other reasons. I have been given to understand that the services are attended by about 40 people. Despite this fact, both he and Bishop Yosif remain indifferent. It would be difficult to leave such a paradise.

[Dimitrova] How will the nomination of the new Bulgarian patriarch be organized? There are rumors about naming some names. For example, Father Khristofor Subev has been mentioned....

[Spasov] The directorate has no intention to interfere in any way in the choice, for this would be a repetition of the past, when the committee could promote and demote patriarchs and bishops.

[Dimitrova] Who will make the nomination?

[Spasov] We should start with the church boards of trustees and all the way up to the convention.

[Dimitrova] Do you not fear that the cumbersome structure and the old guard could turn out to be so ossified that, in the final account, no substantial changes would be made in the Bulgarian Orthodox Church?

[Spasov] Yes, I have such fears. That is why I would not like to hasten the holding of the conference before the end of the year.

[Dimitrova] Such a postponement of the renovation, would it not lead to a split within the church?

[Spasov] We have received requests from the old-calendar people to register a new Bulgarian Orthodox Church. Luckily, their bylaws were not consistent with some requirements of the law.

[Dimitrova] Why "luckily"?

[Spasov] I say this as a Christian and not as a director. No one would like to see the existence of two Bulgarian orthodox churches.

[Dimitrova] What if they have suitable bylaws, would you register them? Would this not lead to a division?

[Spasov] I shall act in accordance with the law, for otherwise we would turn into a totalitarian structure.

Objections to Treaty With Germany Countered

92CH0049A Prague OBCANSKY DENIK in Czech
2 Oct 91 p 3

[Article by David Prudky: "Victim of Nationalism?"]

[Text] The Czechoslovak-German treaty now being drafted includes, among other things, the statement that the Federal Republic of Germany recognizes the fact that Czechoslovakia has not ceased to exist since the year 1918. This sentence incensed the leading politicians of the Slovak Republic, Prime Minister Jan Carnogursky and Slovak National Council Chairman Frantisek Miklosko.

Slovak politicians do not agree with this formulation, pointing out the existence of the Slovak State during World War II. There are several reasons why their objections are, at the very least, amazing. If the Slovak representatives really were to insist on changing the formulation and on including the existence of the Slovak State in the treaty on friendship and cooperation with the FRG, then a very strange situation would arise....

The Slovak State is at this moment in a state of war with the United States of America, because after World War II nobody assumed its obligations, not even restored Czechoslovakia. But, in comparison with other paradoxes that would be engendered by the objection to the present formulation, that is the least of it.

Minister of Foreign Relations of the Slovak Republic Demes and Hungarian Prime Minister J. Antal are clarifying their positions; Prime Minister Antal stated that if the Slovak government insists on including the existence of the Slovak State in the treaty formulation, then it will be necessary to also talk about challenging the Trianon Treaty, because during the existence of this "state lackey" of Hitler a considerable part of southern and eastern Slovakia was turned over to Hungary, which was a breach of the Trianon Treaty, and only after the war were these territories returned to Slovakia. It would certainly be interesting to watch Prime Minister Carnogursky going around these parts explaining to the citizens that their territory will again belong to Hungary, because the Slovak government does not agree with the statement that Czechoslovakia has not ceased to exist since 1918.

J. Carnogursky is a lawyer by profession, and it is therefore proper to ask whether he really failed to see the implications of his disagreement or if he sacrificed his legal knowledge on the altar of the Slovak nationalists' populism.

Commentary on Carnogursky, Miklosko Protest

Recommendation by Slovak Government

92CH0034A Prague LIDOVE NOVINY in Czech
27 Sep 91 p 1

[Unattributed article: "Omit Something, Add Something"]

[Text] Bratislava—At an extraordinary session, the Slovak government recommended that the statement

that the Czechoslovak state has never ceased to exist since 1918 be omitted from the preamble to the agreement between the CSFR and the FRG. It justified this by commenting that it provides no practical solution to the problem between the CSFR and the FRG. Recognition of the annulment of the Munich Agreement is confirmed in the text that follows.

It suggested adding provisions to the text of the agreement between the CSFR and the USSR, which would enable the initiation of direct diplomatic and other relations between the national republics of both contractual parties. At the same time, the government pointed out the different approaches to regulating the status of national minorities in these and in other interstate agreements, and it recommended unifying the resolution of these problems on the basis of a document of the Kodan Meeting on the human aspects of the CSCE [Conference on Security and Cooperation in Europe]. The cabinet authorized the SR [Slovak Republic] Minister of International Relations to interpret for the Hungarians the SR government's alarm about statements made by Prime Minister J. Antal and other functionaries, which could put internationally recognized borders in doubt.

The speaker of the FMZV [Federal Ministry of Foreign Affairs], E. Lansky, immediately responded to the Slovak position on the Czechoslovak-German agreement. "If the government of the CSFR concludes an interstate agreement, and it is approved by parliament, there is no reason why such an agreement should not be valid, irrespective of the Slovak government's position on it," he stated. He added that the FMZV is responsible for the foreign policy of Czechoslovakia, through the authority invested in it by the federal government. According to E. Lansky, the drafting of the agreement between the CSFR and the FRG is in its final stages, but it is not yet clear whether it will be signed during President Weizacker's coming visit to Czechoslovakia.

Czech Objections Summed Up

92CH0034B Prague LIDOVE NOVINY in Czech
27 Sep 91 p 1

[Article by Jiri Hanak: "Pettness"]

[Text] Nowadays the Czechoslovak reader has to be well trained if he is to find his way—at least marginally—around the statements in pydep [satirization of former Czech Communist regime's language in a Havel play] that are hurled at the public by some individuals and institutions. In front of me I have the latest of the brain teasers. The Slovak government wants a passage to be omitted from the proposed agreement between Czechoslovakia and the Federal Republic of Germany, which states that the Czechoslovak Republic legally never ceased to exist since 1918. In the same breath, it also objects to statements made by the Hungarian prime

minister, "which could put recognized borders in doubt." Schizophrenia has become a part of Slovak politics.

If one statement is valid, the other cannot be valid; laws of logic cannot be changed by any specific definitions or by parliamentary sleight-of-hand. If the statement that the Czechoslovak state legally has not ceased to exist since 1918 is valid, the annexation of Slovak soil by Horthy's Hungary in 1939 was legally null and void, and thus nonexistent from the outset. However, if we admit that the Czechoslovak state legally ceased to exist after 15 March 1939, then we have no choice but to admit that the towns of Lucenec, Rimavska Sobota, Dunajska Streda, including Kosice, are Hungarian towns. And that is not all. All the partisans and participants in the Slovak Uprising are traitors against the state: General Golian and General Viest, those killed at Telegart and Strecen, and the thousands of dead from the notorious lime kiln.

The idea that something like this could be valid is absurd and incomprehensible. At least to us. Apparently it is not absurd and incomprehensible to the Slovak government. As far as we are concerned, there is as little doubt that the southern border of Slovakia is the Czechoslovak border, as that the border in the Sumava, in Jeseniky, or in the Krusny mountains is the Czechoslovak border. Apparently this is not true for the Slovak government.

Maybe only the fear of extreme nationalists could explain the ability to cut into one's own living body. A remarkable pettiness is concealed behind the ptydep language, which is ununderstandable and incomprehensible. A pettiness of thought, a pettiness of aims: to keep Slovakia small, but ours. Supreme, sovereign, and independent. Ours? Theirs, because it is impossible to believe that four-and-a-half million Slovaks could agree with this schizophrenia.

Main Provisions of Referendum Bill Explained

Short Summary of Bill

92CH0033A Prague LIDOVE NOVINY in Czech
27 Sep 91 p 2

[Unattributed article: "Referendum"]

[Text] WHO—The President of the CSFR calls for a referendum after consultation with the National Councils (if it is to be held in both republics), or on the proposal of the CNR [Czech National Council] (the CR [Czech Republic] secedes from the federation) or the SNR [Slovak National Council] (the SR [Slovak Republic] leaves the joint state).

WHO—any citizen who is entitled to vote for the appropriate national council may vote in the referendum.

WHEN—the referendum may be held five months prior to the end of the election period of the legislative bodies—in this case up to 10 January 1992. A three-fifths majority of all the members of the SL [People's

House], as well as in the Czech and Slovak sections of the SN [House of Nations] is needed to pass the proposal to accept the referendum.

THE QUESTION—must be phrased in such a way that it can be unambiguously answered with a YES or a NO.

THE RESULTS—are as binding as a constitutional law. If the referendum is held throughout the state, the decision that receives more than one-half of the votes of all entitled citizens in each of the republics will be accepted. The CSFR will cease to exist one year from the date on which the results are made public if the proposal for secession is accepted by at least one of the republics. The activities of the federation will then be transferred to the individual republics, which will have full state sovereignty. A public vote on the same question may be held once in five years.

Relevant Stipulations Mentioned

92CH0033B Prague MLADA FRONTA DNES in Czech
26 Sep 91 p 3

[Article by (pat): "Referendum Like Elections: A Look at the Law on Public Voting"]

[Text] In a referendum, as the constitutional law passed by the parliament on 18 June 1991 stipulates, basic questions on the form of the legal state organization of the CSFR can be posed to the citizens of the CSFR. A proposal for one of the republics to secede from the CSFR may only be decided through a referendum.

The president calls for a public vote on the proposal of the Federal Assembly after consultation with the National Councils (if it is a matter of public voting in both republics simultaneously) or on the proposal of the CNR (a referendum in the Czech Republic on secession from the CSFR), or the SNR (voting on the secession of the Slovak Republic from the CSFR). A referendum may be held no later than five months prior to the end of the election period of the legislative bodies—in this case, up to 10 January 1992. The constitutional law on a referendum also makes it clear that a three-fifths majority of all members of the People's House as well as the Czech and the Slovak House of Nations is needed to approve the proposal to accept a referendum (a resolution by the Federal Assembly, which would also include a question, is now specifically being considered).

Further details on the referendum will be stipulated in the law that is on the agenda of the present joint meeting of the houses in the form of a government draft; therefore the details mentioned below are not in their final form.

Who Votes

Since the procedure of holding a referendum is similar to that of holding elections to the legislative bodies in many ways, the draft of the law refers to the laws on elections to the CNR and SNR wherever possible, and they will be used analogously for the referendum (such techniques are

also used in other countries—in Spain, in Austria, in Hungary, and in Poland—when arranging a referendum).

The right to vote in a referendum is also linked with the right to vote for the appropriate national council.

The Question

The question that will be submitted for a decision in the referendum must be phrased in such a way that it can be unambiguously answered with a "yes" or a "no." If the question contains several solutions to the same issue, they must all be phrased in such a way that they eliminate one another at least partly, and that the voter can unambiguously choose one of the proposed solutions.

In the announcement (in the "Collection of Laws") about calling a referendum, the president must, among other things, state which legislative body submitted the proposal, what question, or questions, or what proposal have been submitted, whether the referendum will be held in one republic or in both simultaneously, and the date on which the referendum will be held.

Voting and Counting the Votes

Any citizen entitled to vote must vote in person—by handing in a valid ballot paper, on which he enters a cross in the appropriate frame to indicate that he wishes to answer the question or the proposal with a "yes" or that he wishes to answer the question or proposal with a "no," or he enters an x in the appropriate box to indicate one of the proposed solutions. Voting is by secret ballot. A citizen abstains from voting if he hands in an uncompleted valid ballot. Voting will take place on the specified day between 0700 and 2200 hours.

Districts will be created for voting and counting the votes (they will not be set up outside the territory of the CSFR, and therefore it will not be possible to vote there), and okreses for holding a referendum. Only parties and movements, which instituted members' clubs in the legislative bodies or which became part of the representation (in the district committee) have the right to be represented in the commissions for organizing the referendum and ascertaining its results (the federal commissions, central commissions in the republics, okres and district commissions)—which is a comprehensible difference from elections.

The Campaign

The campaign period preceding a referendum is a period that starts 40 days prior and ends two days prior to the day on which the referendum is to be held. If the period between the day on which the referendum is announced and the day on which the referendum is to be held is shorter than 40 days, the campaign period starts on the day the referendum is announced.

During the campaign period preceding the referendum the above-mentioned political parties and movements have the right to obtain free air time on the broadcasting circuits of state radio and state television.

A total of 35 hours of air time will be divided between the authorized political parties on each broadcasting circuit of state radio and state television in proportion to the total number of members in members' clubs in the Federal Assembly and in the National Councils.

The Results

If the referendum was held in both republics, a decision is accepted if more than one-half of all the citizens entitled to vote in each of the republics voted "yes" to the submitted question, if they voted "no," or if they voted for one of the proposed solutions. If the referendum was held in one of the republics, a decision is accepted if a majority of more than one-half of the citizens entitled to vote in the respective republic voted "yes," or voted "no" to the submitted proposal (on secession from the CSFR).

A decision on a fundamental question of the legal state organization of the CSFR is as binding as a constitutional law of the Federal Assembly. If the proposal for secession is accepted in a public vote in at least one of the republics, the CSFR will cease to exist one year from the day on which the results of the referendum were published. The activities of the CSFR will then be transferred to the republics, which will then have attained full state sovereignty. A Federal Assembly law will stipulate the details of the transfer of CSFR assets to the republics (the draft of this has also been included in the present session of parliament).

A referendum on the same question may not be repeated for at least five years.

Legal Expert Queried

91CH0033C Prague LIDOVE NOVINY in Czech
28 Sep 91 p 2

[Interview with Deputy Chairman Zdenek Jicinsky by (nel); place and date not given: "Referendum"]

[Text] [(nel)] Professor Jicinsky, we are appealing to you as the First Deputy Chairman of the Federal Assembly. What conditions are necessary for a referendum to be held?

[Jicinsky] Specific conditions are needed for the president to be able to call for a referendum. There are differing opinions on whether a law on execution should be approved before the referendum is called. Personally, although this could be considered to be legal conventionality, I would prefer that the referendum be held after the law on execution has gone into force. The committees are dealing with this law while the 17th joint session of the houses of the FS [Federal Assembly] is taking place. However, next week the question whether we can deal with this law in a joint session will have to be reviewed in a plenary session. You see, we have not yet received the positions of the National Councils. The Slovak

National Council notified us that it will take its position on 11 October, in other words after the date on which the present plenary session of the FS is expected to end. We do not yet have any written report from the Czech National Council.

Another problem is the draft of the constitutional law, which was submitted by members of the VPN [Public Against Violence] and deals with the division of assets between the republics in case the joint state does not survive. The committees of the Federal Assembly are also dealing with this draft, although the same statement I made about the SNR's position also applies to this law.

We must also phrase the question that is to be posed in the referendum. So far, the parliament has received suggestions from the Civic Movement and the VPN. However, in my opinion, the question is phrased too broadly for it to meet with general approval. So, there you have the present state of affairs. Maybe next week we will know a little more about some issues.

[(nel)] What will happen if the draft or one of the essential parts of the announcement of the referendum is not passed by the parliament?

[Jicinsky] The same will happen as happens at other times when a draft of a law is not passed. If one of the houses passes it but not the other, we would try to find some way for both houses to accept an affirmative resolution. If both houses were to reject the submitted draft, we would proceed according to the given constitutional status for the time being. Some time in the future, the draft may get back on the agenda, or, according to the constitutional law, the National Councils could submit an initiative to call for a referendum. So there are a number of possibilities.

[(nel)] According to the law, the CNR and the SNR may propose to the president that a referendum be held. Would that be a referendum throughout the federation or only in one republic?

[Jicinsky] The National Councils may suggest to the president that he call for a referendum; but, in that case, it would have to be on the secession of either the Czech Republic or the Slovak Republic from the federation.

Referendum Defended as Meaningful

92CH0041A Prague LIDOVE NOVINY in Czech
2 Oct 91 p 3

[Article by Karel Kuhn, adviser to the Czech prime minister: "Referendum: Last Hope"]

[Text] The arguments of the opponents of the referendum can be easily summarized: Citizens are not sufficiently informed and will let emotions dictate their vote. Referendum—if it turns out in favor of the federation—will not solve the question "what kind of common state," and therefore will solve nothing. Referendum will block or push into the background other, more important issues,

such as the economic reform. And finally, the referendum requires the approval of an absolute majority of eligible voters, so that if voter turnout is light, it is doomed to defeat in advance. With the exception of the last one—these are spurious arguments.

The argument that emotions will determine the decision is an insult to the voters. There is even talk of the danger of a "thoughtless" vote! Are the citizens of this country really so dumb that they cannot be trusted with a decision on their own future? People are a dumb herd, unable to make their own decisions—so in their own interest we must make the decision for them! Does it not remind you of something? Has not somebody in this country already tried for an entire 40 years to press on people "their own good"—whether they liked it or not, by force, if necessary? This is not to accuse opponents of the referendum of bad or even violent intentions. I merely consider it necessary to point out that hidden in this seemingly understandable argument based on the "immaturity" of the voters is a good dose of danger for democracy.

That the referendum cannot answer the question "what kind of common state" is indisputable. To do that, it would be necessary to place before the voters practically the complete constitution, and that would mean that somebody would have to draft it and somebody would have to adopt it. It is an illusory notion in today's situation. Nor is it the purpose of the referendum to decide everything. Time is the most precious commodity we have—and of which we also have the least. The referendum can at most make the situation clearer. It will provide a purely numerical argument. No more—but also no less. In itself it cannot save this state, but without it this present unsettled situation will inevitably lead to its breakup. Referendum is the last straw that a drowning man grasps at. There is not much hope, but to throw away this chance would be unforgivable.

The argument that would scuttle the idea of a referendum by citing the alledged danger that everything else would be delayed is a manifestation of perverted logic. The constant obstruction of legislative activity, and especially of the economic reform, is precisely the result of politics choking on the goulash of the state structure issue. The losses are mounting—and it is one of the miracles of the Czechoslovak reality that so far it has not led to anything worse than suffocating frustration. The aim of the referendum is to attempt to cut the Gordian knot. It is, of course, almost too late, and the referendum really will put a halt to everything else during the period before the upcoming election campaign. But it will nevertheless be a lesser evil than to stand by and watch the continuing stagnation without any prospect for it to end. In the given situation no "good" solution can really be found. All solutions will be bad, and the point is to find the least of the evils among them. When we look at it this way, the referendum is at the very least the least harmful alternative.

A certain fear of the referendum is justified only by the existing legal form of this instrument of direct democracy. The question asked is answered positively if the answer "yes" is given by an absolute majority of eligible voters. Those who do not participate automatically vote "no." A small example in simple arithmetic will show what it means in practice. If, for example, only 80 percent of eligible voters take part in the referendum, the absolute majority of those will not be sufficient for the "yes" answer. It must be the majority of all eligible voters—even those who did not take part. Almost 65 percent of participating voters would have to cast a "yes" vote in order for it to amount to a majority of all eligible voters. And if there is only a 65-percent voter turnout for the referendum, more than 83 percent (!) of those who took the trouble to come and vote would have to say yes.

But even this fact cannot be a reason for rejecting the referendum. Although it is a strange arrangement, its purpose is obvious: The legislators wanted the will expressed in the referendum to be incontestable enough so that nobody could challenge it. It could, of course, happen that with a small voter turnout a positively formulated question, thanks to this somewhat exaggerated effort to achieve an indisputable result, would fail in spite of a majority of "yes" votes. If 20 percent of voters do not come at all to answer the question "Do you want a common state," not even a 60-percent majority of participating voters will save Czechoslovakia. But if, on the contrary, the question is formulated negatively—for example, "Do you want a partition of the state?"—the breakup of the state will be made more difficult by the same token.

Implications of Europe's Division in East, West

92CH0049B Prague OBCANSKY DENIK in Czech
2 Oct 91 p 3

[Article by Petr Pavlovsky: "To Which Europe?"]

[Text] Geographically, there is only one Europe, from Ireland to the Urals. But as far as culture and civilization are concerned, there are two, and have been for more than a thousand years. If this division has had until recently a relatively clear, politically expressed form, it is much less clear today, because more at issue are the differences in civilization and the consciousness and perhaps also subconsciousness of political culture arising therefrom.

All of Europe is certainly united to a certain degree by a common Christian point of view, or to be more precise, Judeo-Christian and classical points of view, but already during the first millenium West and East began to part company. The power of Byzantium gradually moved to Moscow, and, on the other hand, the power of Rome disappeared to be replaced by secularized West European states. Christian churches ceased to be state churches. The West European states gradually began to change from states of believers to states of nations, and following World War II their direction has been unmistakably toward the

civic principle. The future is clear: Integrated West Europe as a single state consisting of regions formed from below by citizens enjoying full rights.

Unfortunately, we see an opposite trend in the East today. Postcommunist, overwhelmingly orthodox countries tend toward creating nation states, that is, not from below—from the citizens—but from above, from a vague collective called a nation. We are witnessing a kind of relapse into nationalism often connected with fundamentalism of many varieties. Some thinkers (for example, Solzhenitsyn) say openly that the nation is not yet mature enough for free, civic democracy, and that others maybe do not even want it. The liberal, nonreligious Western civilization seems to them to have almost diabolical characteristics, and they want to protect their nation from it by means of a strong, fundamentalist state, where nation, church, and state are basically one and the same. To put it simply, we have two concepts confronting each other: a minimized state of citizens versus a strong state of a religious nation.

For the question of future integrity of Czechoslovakia it is not fundamentally important at this point which concept is better—let every reader decide according to his own mind and heart. But what is crucial is the fact that these two concepts came into conflict precisely here, on our territory, and that we must see in their differences the source of all the centrifugal tendencies of both parts of our thus far common state. I am afraid that Slovak political representatives, key political parties and movements, chairmen of the highest executive and legislative bodies, all have already sufficiently expressed and continue to express their firm intent to lead their voters from above, certainly in the Eastern direction that was described above, in a simplified way. On the other hand, Czech politicians equally unequivocally tend toward the political concept of West Europe, which for them is the Europe they yearn for, to which they want to return.

If that is so, then it "only" remains to be ascertained to what extent citizens agree with this concept, and then act accordingly. But I am afraid that elections rather than a referendum can answer this question. Only at the time of the elections should individual political forces present their clearly formulated positions on one or the other basic political orientation. For one thing is beyond dispute: these concepts are totally incompatible.

Historian on Demands for Slovak Sovereignty

92CH0032A Prague MLADA FRONTA DNES in Czech
26, 27 Sep 91

[Interview in two installments with historian Jan Rychlik by Ivo Slavik; place and date not given: "Federation vs. Sovereignty"]

[26 Sep p 3]

[Text] We are bringing the first part of an interview with the historian and ethnographer, Jan Rychlik.

[Slavik] Slovak sovereignty may soon be declared. Are you optimistic or pessimistic in respect to the further functioning of Czechoslovakia?

[Rychlik] If Czechoslovakia is to function as one state, it can only have one international legal status, so that it will always appear as a single unit in relations with foreign countries. This is the very thing that troubles the Slovaks most, but it cannot be eliminated. A single international legal status also means a single sovereignty on basic issues, because international recognition means that the entity must pledge itself to fulfill all assumed obligations within the state, and this is impossible without sovereignty over the entire territory. Although there are federations whose member states or countries have professed independent international legal status and sovereignty, this is either a matter of a remembrance of the manner in which the union between previously truly independent states was created, or it is an meaningless formality. In practice, the member units of a federation never fully assert their sovereignty and international status. True Slovak sovereignty, i.e., the impossibility for federal agencies to execute their jurisdiction over Slovakia, would mean the beginning of the actual disintegration of the state. I am pessimistic as far as the possibility of preserving Czechoslovakia is concerned. I would be glad to be proved wrong.

[Slavik] What steps should the Czech and federal representatives take if Slovak sovereignty were to be declared unilaterally? As a matter of fact, why, in fact, is the SNR [Slovak National Council] taking such an unconstitutional step instead of demanding that a referendum be held?

[Rychlik] The separatist forces know that the outcome of a referendum at this time would not be what they need. The public must be "processed," it must be convinced that it is the Czechs who are opposing rightful Slovak demands (although, when they are analyzed, it becomes clear that their acceptance would mean the disbanding of the state), and apparently a referendum will not be held until that point. In order for ideology to continue to have an effect, it is also necessary for the Slovak public to have the feeling that it won its independence and not that it was given to it. As a result, attaining independence through legal means is of no value to the separatists. The unilateral declaration of sovereignty is meant to create pressure on the part of the Czechs, which will evoke the desired counterpressure on the part of the Slovak citizens. Therefore, I believe that the Czech political representatives should not react at all to the declaration of sovereignty. As far as the federal agencies are concerned, there are two possibilities: if the declaration of sovereignty is purely formal (e.g., it is immediately temporarily suspended), there is no reason to dramatize the issue. However, if the Slovak offices were to effectively start preventing federal agencies from executing their jurisdiction, this would have to be interpreted as Slovakia's unilateral secession from the federation. There is no sense in trying to prevent it. However, in such a case, the Czech representatives would have to take steps in the

international arena to ensure recognition of the fact that the Czech Republic will continue to bear the international legal status of the now defunct Czechoslovakia.

[27 Sep p 3]

[Slavik] In your opinion, which alternative is better from the objective point of view—a federation or a confederation?

[Rychlik] A confederation is not a joint state. It is made up of two or more states, whose sovereignty is limited through a mutual agreement only in specific areas—primarily in international relations. In practice—from the perspective of long-term development—there are only two possibilities. A federation that is based on civic principles, or two separate states, which, naturally, may work closely together. After all, in order to preserve a joint state it is necessary for the absolute majority of the citizens of the state—irrespective of their nationality—to consider this state as their own. This means that belonging to the state must be the determining factor and take precedence over belonging to a nation. Our homeland must be the territory from the As to Cierna nad Tisou, not a stretch of land at the foot of Rip Mountain or the Tatra Mountains. This in no way eliminates the awareness of ethnic diversity or the principle that Slovak or Czech agencies should make decisions on Slovak or Czech issues. However, the only states that can be founded on the nationality principle are those, which really are at least 90-percent ethnically homogenous. A federation based on nationality can survive for a certain length of time, but it will then either turn into a civic federation—as was the case in Switzerland, where the awareness of 700 years of coexistence and joint responsibility for one state created the Swiss civic-political nation—or it will fall apart, as is the case in Yugoslavia. The same applies to confederations—either, over time, a closer organization takes place, based on civic principles, or they disintegrate. If it were possible to guarantee that a confederation would last at least 50 years, there would be some sense in having one; because, during those 50 years, the awareness of joint responsibility could be consolidated—among other things, through the influence of European integration processes. The Slovaks have repeatedly refused the civic principle. Since a confederation does not, and cannot, exist anywhere as a permanent state, there is only one ultimate option: a confederation as an interim stage leading to total disintegration. I consider this to be a waste of time and resources.

[Slavik] During the period of the citizens "growing awareness," wouldn't it help to point out the international situation, i.e., on the one hand, the integration trends in the West and, to the contrary, the chaos in the East, which could threaten Slovakia territorially?

[Rychlik] One must realize that the feeling of nationality is totally irrational, and therefore logical arguments cannot succeed in this respect. National units—as I have already indicated—can never be permanently integrated into a federation, because this goes counter to the nature and behavior of an ethnic nation as a social organism. Such problems were not studied in this country because ethnography was imprisoned in Marxist-Leninist dogmas; however, it is a matter of issues that are essentially known throughout the world, but ones that are persistently ignored by both Czech and Slovak representatives in all their actions. So far, experts have not agreed on the definition of an ethnic nation; however, one could say that it is a relatively large group of people, who—both in their own conviction and in the conviction of the environment—are imbued with specific features (it is irrelevant whether they truly have them or not), and who are aware of the fact that they belong to this group. The result is that claiming a certain nationality is, to a considerable extent, a matter of subjective choice, although there is some retroactivity, in the sense that the environment has convinced me that I truly belong to this group. Therefore I am a Czech because I feel I am a Czech not because I speak Czech (which anyone can learn), but the environment has a decisive influence on this free choice, and it “convinces” me (e.g., parents, school) that I truly am a Czech. What I have just said makes it clear that a nation is a negative definition, because I realize that I belong to it only on the basis of my awareness of the differences between myself and the members of other nations. In contrast to this, the principle of integration presupposes the awareness of similarities with members of other nations; as a result, it is not possible to integrate national units sufficiently. The process of national awareness thus means that I place belonging to a nation in first place, above belonging to various social organisms (family, community, state). A nation develops from ethnic groups and its basic feature is the manifestation of its differences. It starts with cultural and language requirements, but at a specific stage in development, the nation begins to feel the need for some political superstructure. This is where the demand for autonomy or for a federation appears. For some time, the national unit will develop within this framework. Ultimately, however, the frame becomes too tight. However many rights the nationalities in a multinational state have, the smaller of them will always feel that they are being wronged. However loose the federation may be, over time, on the part of the Slovaks, it will seem to be too rigid. We do not have this feeling on the part of the Czechs, because the creation of Czechoslovakia on 28 October was always (wrongly) interpreted in this country as the resurrection of a former Czech state. The feeling of national self-realization was fully satisfied through this action. In other words, it will be useless to use the argument of the integration processes, which are taking place based on the civic principle in Western Europe. Slovakia will not accept it.

[Slavik] What do you think about the possibility of cooperation if two states were to be created? [Rychlik] I

am convinced that such cooperation would be possible, in fact, it would be necessary. After all, both our nations are dependent on each other in the region of central Europe, and this would not change even if there were a political border between them. If the state disintegrates, I believe that free movement of the labor force and of capital should be made possible as they are in the countries of the European Community. If such coexistence were to be long-term, a new supranational association could gradually evolve, although, of course, it would no longer be Czechoslovakia as it is now. However, a prerequisite for this is that democratic forces will govern both in Prague and in Bratislava. Unfortunately, there are plenty of people in Slovakia who imagine the Slovak state as a republic on the lines of the cleric-fascist Slovak Republic of 1939 to 1945. At this point, it should be clearly stated that cooperation with any kind of neo-people's dictatorship would be impossible. At best, it would be a coolly polite relationship, and at worst, new barbed wire fences would unfortunately appear along the Morava river.

Association of Economists for Slovak Sovereignty

92CH0042A Bratislava NOVY SLOVAK in Slovak
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["Text" of statement signed by Council of Independent Association of Slovak Economists in Bratislava on 16 September]

[Text] The Independent Association of Slovak Economists (NEZES) has turned to the public with this announcement:

1. The entire Czecho-Slovak economy keeps deteriorating because of the mistaken method of transforming it into a market economy. Therefore, the future fate of all CSFR citizens primarily depends on whether this method will continue to be used or be replaced by another.
2. The Slovak Republic and its citizens are paying relatively far more for this thus far unsuccessful experiment with economic reform than the Czech Republic and its citizens. It is enough to compare the rate of unemployment, the number of enterprises threatened by bankruptcy, and the generally steeper decline of the Slovak economy in contrast to the Czech economy. This reality and the way it is constantly and aggressively being distorted by the Czech side does not give hope for mutual understanding.
3. Slovakia has the right to reject such an economic reform that works to its detriment. For the government of the Slovak Republic and for the Slovak National Council it is literally a duty. If the inalienable right of the Slovak nation to choose its own economic system and determine its own economic policy cannot be realized through an agreement with the Czech government, the loss of national economic sovereignty cannot be compensated for by the preservation of a common Czecho-Slovak state.

4. The state of the Slovak economy will no longer tolerate any procrastinations in resolving the fundamental questions of the reform and the economic policy as a whole. Above all, it will not tolerate delays stemming from the unresolved issue of the state structure. There is a real danger that given the present trends, the Slovak economy will collapse before an agreement on the state structure is reached. The Slovak economy therefore cannot depend on the form of the Czecho-Slovak state, or on its preservation or liquidation. On the contrary, the union of the Slovak and Czech nation must depend on the fulfillment or non-fulfillment of Slovakia's economic sovereignty.

5. The referendum on the preservation or dissolution of the Czecho-Slovak state confuses these questions and their order of precedence. It does not touch on the method of the radical transformation of the economy. It therefore does not even guarantee the continuation of the Czecho-Slovak state, no matter what its result.

6. Slovakia's economic losses and the hardships suffered by its citizens as a result of the current economic reform are already evident, glaringly so. At the same time nobody, including the reformers themselves, can fathom the end result of these developments, and therefore also the total extent of the decline and misery resulting from this unitary reform within the framework of a unitary state. For that reason alone it is unfounded and irresponsible to frighten people by assertions that greater misery awaits them if there is an independent Slovakia than if Czecho-Slovakia is preserved. On the contrary, we shall not emerge from misery as long as the economic policy of the Slovak Republic, including the reform policy, is determined by the federation.

7. We appeal to our fellow economists to be guided by their expert conscience in forming their positions on the reform and the state structure. That way we shall certainly stand united on the economic and political sovereignty of the Slovak Republic.

8. From the Slovak government and the Slovak parliament, we expect the already urgent halt to the catastrophic development of the Slovak economy, or, in other words, a unequivocal abandonment of the present approach to the reform. Delays can no longer be even justified by the necessity to preserve the constitutional approach to Slovak sovereignty. The constitutional platform is in fact provided by the existing CSFR constitution. It is obvious that any constitutional approach of the Slovak side will remain an unconstitutional approach in the eyes of the Czech side.

9. We appeal to the public to trust us. NEZES will not change its character and will always act according to its professional conscience and Slovak national interests. That is why we unconditionally support the initiative For a Sovereign Slovakia. A nation that is not economically sovereign in the end is not even free.

Bratislava, 16 September 1991

[signed] NEZES Council: Hvezdon Koctuch, chairman; Michal Adam; Vladimir Bachr; Gerhard Brhlovic; Koloman Ivanicka; Ladislav Lysak; Stefan Michalek; Ivan Milko; Jiri Nevrela; Julius Pavlovsky; Dusan Plachtinsky

Envoy Views Trade Relations With USSR

92CH0018A Prague HOSPODARSKE NOVINY
in Czech 18 Sep 91 p 4

[Interview with Rudolf Slansky, CSFR ambassador to the USSR, by Dusan Spak in Moscow; date not given: "The Enterprises and Entrepreneurs Will Have the Main Say"]

[Text] [Spak] The eyes of the entire world are now focused on the Soviet Union as never before. Mr. Ambassador, looking back to the dramatic events that took place in the Soviet Union several days ago, what is your assessment of them now?

[Slansky] An assessment is complex, and at the same time simple as well. What we are talking about is the defeat of a coup against the state, although opinions differ as to whether it was merely an attempted coup or a real coup as such. The defeat of that coup triggered an essentially democratic revolution in the Soviet Union. It triggered democratic changes within society, while strengthening the emancipationist elements in the individual union republics.

[Spak] In your opinion, how have the half-hearted economic reform, the arguments over its concept, and the center's limited ability to take action affected the Soviet economy's development and performance, as well as the development of entire society?

[Slansky] Here it is hard to say which came first, the egg or the chicken. In any event, the Soviet economy is in a complex crisis. It has been in one for a long time. Now that crisis has unfolded in its entire depth. In a way, of course, inconsistent modification of the economic mechanism has deepened the economic crisis. A number of changes have been introduced, but they cannot be interpreted unambiguously as changes leading to a market economy. The old system in the Soviet Union has ceased to function and the new system is not yet functioning, because its political, legal and economic prerequisites have not been put in place. The result, therefore, is the deepening of the crisis.

In the Soviet Union the disputes over the economic reform's concept were primarily a dispute over the direction of that country's overall development. A market economy presupposes profound changes in the political mechanism. Those changes in their turn are essentially preconditions for changes in the economic mechanism. We know that very well from our own experience here at home, and also from the experience of our neighbors. There is no need to waste words about it. In the Soviet Union, political changes were lacking that

would have made possible the commencement of introducing market mechanisms.

[Spak] These shortcomings must then have projected themselves into entire society's life.

[Slansky] Of course. Primarily in the sense that the standard of living continued to decline during the past several years, and every attempt to stop that decline failed. Understandably, that undermined the population's confidence in the country's leadership and also affected the Soviet Union's relations with its trading partners.

[Spak] Why do you think there was such hesitation in the Soviet Union to change over radically to a market economy?

[Slansky] That would have meant a radical change in the political system. A radical changeover to a market economy would not have been possible without a radical change in the political system. It was not possible amidst the totalitarian system's surviving remnants, because a changeover to the market demands a democratic political system, the individual's civic, political and economic freedom, his freedom to engage in business activity, the citizen's independence of the state. Simply stated, essentially everything that we have been trying to introduce at home during the past year.

[Spak] Do you think that now, after the experience of recent years, the Soviet economy's transition into a market economy will get the green light, so to speak?

[Slansky] That is very likely. Anyhow, I can hardly imagine any other rational course, if the country develops in the direction of democracy. The prerequisites for that do exist in the Soviet Union.

[Spak] At what rate can we expect the introduction of a market economy in the Soviet Union?

[Slansky] Now, that is a complex question. After all—in contrast to Czechoslovakia, Poland and Hungary—the Soviet population's approach to a market is quite different. Here there is a long period of 70 years, and not of 40 like in our country. Here you have a much stronger sense of equalitarianism stemming from the traditions of the Russian commune. Psychologically, the people are not yet ready for the market, neither as entrepreneurs nor as consumers. For them it will be shock therapy of much greater intensity than in, say, the CSFR. Therefore the possibility is not entirely excluded that, first, a much longer period of preparation will be needed in the Soviet Union than was the case in our country. Second, that the population's greater resistance to a market economy's introduction will manifest itself, nevertheless, to some extent. And the third factor that should not be underestimated is that the living standard usually declines during a market economy's introduction. Any further decline in the Soviet Union's already low living standard could strengthen the population's opposition to economic reform. These, of course, are merely theoretical

assumptions. Much will depend on how much confidence the population of this or that republic will have in its own leadership or in the union leadership, because that factor in itself is very important. If the degree of confidence is high, it will be possible to overcome also other problems that otherwise would be insurmountable.

[Spak] How will the enterprise sphere react to these changes?

[Slansky] In its own way, like in our country. At first it will pretend that nothing is happening. It will fail to understand that substantial changes are necessary, and from the very beginning at that. But gradually, as life shows the enterprises its other, new face, they will be forced to adapt. The ones that do not adapt will have no chance of surviving.

[Spak] After more than 70 years of a command-directed economy, is it at all possible to resurrect the spirit of enterprise in the Soviet Union?

[Slansky] Yes, I think so. When you walk along the streets of Moscow and other cities, you already see many private and cooperative stores, restaurants and workshops. There is a fairly wide stratum of people ready to become entrepreneurs. The same is true in the villages. There, too, you will already find several hundred thousand peasants who want to farm on their own land. And I do not doubt that many managers of state enterprises also have sufficient entrepreneurial abilities to stand their ground under the conditions of a market. I would not be concerned about a lack of entrepreneurial willingness. Far worse will be the shortage of entrepreneurial skills. Because, quite frankly, the quality of entrepreneurs in the Soviet Union is quite low, and that is true also of the way they do business. The will to grab everything that can be grabbed now, without regard for the future, is very strong; and that evokes society's strong opposition to such entrepreneurship. And it will be quite difficult for Soviet entrepreneurs to understand what modern entrepreneurship is all about.

[Spak] Foreign capital. That has been a very touchy subject for the Soviet economy; not only in the past, but during perestroika as well. Although the Soviet Union has lately been proclaiming that the road is open for the influx of foreign capital, the imaginary door merely stands ajar. The prevailing view is that the door must be wide open. What are or will be the preconditions for foreign capital to move into the Soviet Union?

[Slansky] Here, I believe, we do not have to theorize much. The preconditions are entirely the same as in our country: to put in place a perfect legal system that guarantees the position of foreign capital; to achieve political stability in the country, so that foreign capital will not be afraid to come here; and to create a suitable business climate. These are essentially the same things we must do, and have been trying to do, in our country.

[Spak] In your opinion, what will be the economic consequences if some of the republics declare their

independence? How might that affect the further development of the Soviet economy and Soviet society?

[Slansky] Here a distinction must be made between long-term and short-term effects. In the short term, I believe, all this will deepen the Soviet economy's crisis. Central administration will collapse. The question will be the rate at which systems of administration evolve in the individual republics. A process is ensuing in which the republics are taking over from the center the ownership or management of enterprises. Primarily the bureaucratic structures of those republics are taking over the enterprises. New systems of management are being built in the republics. Those systems do not always have to be mutually compatible or linked together well. There could be many malfunctions. Many of the former economic ties between republics will necessarily disintegrate, although there will of course be tendencies to preserve them. Many of the bureaucratic restrictions imposed by the center will also disappear. On the other hand, however, it is quite certain that a number of barriers will be raised in the republics. The economic crisis will dictate many of those barriers. I fear that, in the immediate future, our position in the Soviet market—whether in the market of the union as a whole or in the markets of the individual republics—will be more difficult and complicated than it is today.

[Spak] What is your assessment of the present level of Czechoslovak-Soviet economic relations, and of their immediate and long-term prospects?

[Slansky] The level of our economic relations is low, because in our mutual trade we are achieving less than half of last year's volume. Any favorable assessment would be out of place. It is quite another matter that practically all countries are in the same situation, with the exception of the ones that are able to trade with the Soviet Union on credit to a large extent. Like Germany, for instance. I believe we are pursuing a fairly active economic policy, compared with the countries that are in approximately the same situation as we are. We have long been aiming for diversification in our economic relations. At the union level, at the level of the republics, and at the enterprise level as well. We already have a fairly extensive system of agreements with individual republics, and it is being expanded and intensified further.

In my opinion, the most important thing at present is for [our] enterprises to realize that the state will no longer be giving them anything and will not be bringing them Soviet orders. That it will no longer be doing anything for them in the enterprise sphere, because that period is now over. Essentially the enterprises will have only those deals which they themselves conclude. But within the framework of the intergovernmental agreements that the state concludes on their behalf, of course. The state's role is to put in place the conditions for economic relations. But to negotiate deals, obtain orders and be entrepreneurs—all those things must become the concern of the

enterprises themselves. Nobody will now be doing anything for them in that respect. They will have to travel to the Soviet Union and seek partners in all its regions. And not merely at state enterprises, but also in the sphere of private enterprise, which by now is fairly extensive. And the sooner the enterprises realize that everything now depends on them, the better. The enterprises and entrepreneurs are now the points of main effort in foreign trade.

[Spak] As the process of the union republics' declaring their independence continues, our cooperation will evidently be oriented increasingly toward them. Could you briefly review the balance of our contacts with the individual republics to date?

[Slansky] We have already signed a number of agreements, mainly with the Russian Federation, the Ukraine, Belorussia and all the Baltic republics. Agreements have been drafted with additional republics: Georgia, Azerbaijan, Uzbekistan, and Kazakhstan. I think we have done a fair amount of work in this respect. Although these agreements will not be having an immediate effect—this year, for instance—they nevertheless provide a good basis for next year and thereafter. That is how this is being perceived also in the individual union republics at present, after all the changes that are taking place in the Soviet Union. We are ready to respond to the new situation as it develops.

Republics' Contributions to Federation Compared

92CH0031A Prague MLADA FRONTA DNES in Czech
17 Sep 91 p 3

[Article by Vladimir Matejovsky: "Budgetary Genie: How Much the Slovak and Czech Republics Really Contribute to the Federation"]

[Text] The genie has been let out of the bottle. This would be a fitting description of the statement by the Czech Minister of Finance, Karel Spacek, that "the Czech Republic's contribution to the federal budget exceeds the amount contributed by the Slovak Republic many times over," which he made last Wednesday in the Czech National Council [CNR]. And—to eliminate all doubts—Jan Kalvoda, deputy chairman of the CNR, stated more precisely that "many times over" means approximately tenfold.

It is not difficult to imagine the uproar this "disclosure" caused in Czech and Slovak households. The authors of the statement must have expected such a reaction, and everything indicates that this was exactly what they were aiming for. After all, the Czech Republic's "tenfold" higher contribution is based on the economy of the CSFR and on the apportionment of the two fundamental revenue items that was approved and is included in the laws. However, the lay public (as well as most of the members of the CNR) are unaware of this.

A Brief Recapitulation

The budgets for this year were drawn up about a year ago. Since we have three budgets in addition to a dismal political situation, it caused great turmoil. A clear definition had to be given as to what belongs to which budget. The greatest controversy was caused by two items—the sales tax and the profit tax. To illustrate the sums that were at stake: The estimated revenue from the sales tax for this year was 154.3 billion Czech korunas [Ksc], and from the profit tax it was Kcs89 billion. In other words, sums of money that are certainly worth arguing about.

In contrast to other budgetary revenues (e.g. income tax), it was obvious in the case of both above-named items that they could not be apportioned according to the place of origin (the CR [Czech Republic] or the SR [Slovak Republic]).

The sales tax is only paid by the last enterprise in the production chain. In Slovakia, the majority of the industry is such that its products are further processed in Bohemia-Moravia. This means that the sales tax is paid by Czech producers of finished goods, but their Slovak subsuppliers also “earned it.” Therefore, logically, they also are entitled to some part of it. There is a similar problem with the profit tax. This is paid by an enterprise according to its place of registration, which, however, takes no consideration of the origin of the profit. For example, in a Slovak enterprise that sells its products in Bohemia-Moravia, the following question arises: should the tax go to the SR (since that is where it has its headquarters) or to the CR (since that is where the profit comes from)?

Ultimately, all the sides concurred that the revenues from the sales tax and profit tax would be divided between the federation, the CR, and the SR according to the ratio 35:40:25. This ratio is also included in laws on the budgets of the republics for 1991, and nothing can be done about it for this year.

The Plans and the Actual Facts

Of course, when they were agreeing on the formula 35:40:25, each of the sides was going by its own calculations and is correcting many of them during the course of this year. This is not surprising, because it was impossible to predict the economic development accurately at that time. The same applies to the two above-mentioned items. The estimate for the revenues from the sales tax was reduced (to 142 billion) and the estimate for the revenues from the profit tax was increased (to 134 billion). In the process, it became obvious that the revenues from the SR had been overestimated, while the opposite applies to those from the CR.

Admittedly, Slovak Minister of Finance Jozef Danco, talking about the sales tax on television on Thursday, still stated that the planned revenues for the SR (54 billion) would be attained, but the actual facts during the first half year (19.2 billion) prove, at the very least, that

this is unfounded optimism. To date, the development of this tax according to place of origin is approximately 70 to 30 (CR to SR). Since—according to the adopted formula—40 percent will remain in the CR, then 30 percent will go to the federation (70 minus 40); and 25 percent will remain in the SR, which means that 5 percent will be left for the federation. The ratio of the contribution is thus 30 to 5, i.e., a multiple of six. But remember what we said about the sales tax: since most of the enterprises in the CR are “producers of finished goods,” this kind of view and calculation is not quite fair.

The situation with the profit tax is similar. The Slovak enterprises are finding it more difficult to deal with the new economic conditions, and therefore their profits are lower than planned, while the opposite is true in the CR. The ratio of revenues to date is estimated by the Federal Finance Ministry to be approximately 75 to 25. If the same approach is used, the ratio of contributions to the federation is even more appalling: 30 to 0. But to what extent are the Slovak enterprises’ problems objective (conversion, price regulation, etc.), and to what extent are they subjective?

What Lies Behind This

“The budget should not inflame more passions, instead, it should be drawn up on the basis of prior political decisions, which, however, have not yet been made,” Minister Karel Spacek told us on Friday. What he had in mind was the fact that the period for drawing up a budget for next year is beginning and, as he said, “a budget for a federation, for a confederation, or for two separate states must be drawn up differently. The proposal for budgetary regulations, which was submitted by the Slovaks during a meeting of the speaker’s councils of the two national parliaments, clearly has the features of a confederation.”

The assured demagoguery with which the revenue structure of the federation was introduced in the CNR last Wednesday is probably pursuing two basic aims. First, to create for the Czech government a starting point for negotiations on budgetary regulations for next year, where its aim is to replace the ratio 1.6 to 1 (40 to 25) with a ratio of 2 to 1. Second, to allow the Czech government to stop being on the defensive, a situation characterized in Slovakia by the popular slogan “the Czechs want a federation because it is advantageous for them.”

On the conventional side, the formation of the “tenfold” calculation is not wrong. But, in fact, it is a typical example of the misuse of economic statistics for political aims. This may be justified tactically, but it is wrong strategically, since it intensifies distrust between the two nations. On the other hand, a considerable number of Slovak politicians do not even attempt to support their economic positions with a conventionally correct calculation. It is very difficult to fight such an approach.

The head of the budget department at the Slovak Finance Ministry, Lubomir Klimko, refused to give an immediate response to the discussion in the CNR. On Monday the Federal Finance Council will meet in Prague, and all three finance ministers will be present. They will certainly discuss the budgets... and, in many ways, these will be critical negotiations.

Savings, Loan Problems Discussed

92CH0019A Prague REPORTER in Czech, No 37,
12 Sep 91 pp 10-11

[Interview with Engr. Josef Tosovsky, chairman of the Czechoslovak State Bank and a member of the International Monetary Fund's board of governors, by Ladislav Henek and Martin Mrnka; place and date not given: "Capital Must Yield as Much as Possible"]

[Text] In its No. 35 [29 August] issue, REPORTER published the first part of an extensive interview with Engr. Josef Tosovsky, chairman of the Czechoslovak State Bank and a member of the International Monetary Fund's board of governors. Today we will be interviewing him about price stability, the supply of credit, and the activity of foreign banks in our country.

[REPORTER] The tasks of the State Bank include, among other things, the maintenance of currency stability and price stability. Since 1 January 1991, the [exchange rate of the] koruna has not budged in relation to a basket of convertible currencies. The latest statistics, moreover, indicate also a gradual stabilization of prices.

[Tosovsky] To stabilize the domestic price level is one of the most difficult chores we have had to undertake and are undertaking. Prices jumped after their liberalization and, in the course of that jump in prices, everyone was able to test the upper limit at which his product could still be sold advantageously. Although we are assuming that prices will still rise moderately through the end of this year, we are now very close to the point we could call price stability.

[REPORTER] Obviously, that is why you have just cut the interest rate.

[Tosovsky] We began cutting the interest rate already earlier. Since the beginning of the year, as soon as we felt that the inflationary pressures were easing, we went from an initial interest rate of 24 percent to 22, then to 19.5, and now to 17 percent. Of course, we are facing a certain dilemma so far as interest paid on deposits, especially the deposits of individuals, is concerned. The rates of interest charged on loans are declining and, commensurately with them, so are the rates of interest paid on deposits. What response would you expect from individual depositors?

Thanks to an interest rate that has now shifted back to positive, individuals are beginning to save again, which is beneficial for our state. For it means that there will be money to finance the new investments Czechoslovakia

sorely needs. We do not want to put that trend at risk. But if the development of inflation remains under control, it is only logical that the level of all interest rates will decline with time.

[REPORTER] Would it not be better if individuals were to invest their money directly, without the process of depositing savings, which then are used to provide loans?

[Tosovsky] It is all the same to us who uses that money. The decisive question is where will the money be used. It should be invested in those areas of the economy that offer the quickest return. You will note that I am not talking about sectors of the economy, the way we did in the past. Only about profit, whether in electrical engineering or biotechnology. Profit adds to capital, makes it grow. From the macroeconomic point of view it is all the same whether that happens at our own commercial bank, a foreign commercial bank operating in our market or at a sole proprietor. In the end, incidentally, it will again be private individuals who will invest that capital. Today loans to private individuals clearly show the fastest growth. Outstanding loans to private individuals increased by 1,000 percent during the first six months of this year, from 3.4 billion to 24.7 billion korunas [Kcs]. That total is still small but it will soon be much more, if the attained growth rate continues.

Returning to your question, the seemingly complex system of depositing savings with the bank, which then lends the money out to borrowers in the form of credit, makes capital mobility possible. Moreover, that capital gets into the hands of people who know how to make it grow rapidly. It might be people who bought a restaurant, refurbished it and are already earning a profit from it; or people who today are beginning to buy factories.

[REPORTER] Frankly, large state enterprises and small private entrepreneurs alike are disgusted with credit policy. Both groups complain that money is too dear.

[Tosovsky] So far as state enterprises are concerned, up to now they were accustomed to being completely indifferent about money. All at once that money becomes their umbilical cord and completely influences their decisions. Naturally, their first reaction is to cry, "We do not have enough money." At the same time, however, they are unwilling to examine their own finances. Yet that is one of the principles of the new economic system. If I lack money, I must first examine what reserve I have.

Furthermore, if anybody ever obtained cheap money this year, it was certainly the state enterprises. The interest rate at the beginning of this year was far lower than the price level's rise. If prices jumped 26 percent while the interest rate was about 20 percent, then the money was not dear. Whoever claims that it was dear is not telling the truth. That is also the reason why so many enterprises made huge profits during the first half of the year.

On the contrary, if anyone ever suffered, then the population certainly did. The economic reform's burden shifted during this period, from the enterprises to the population.

[REPORTER] But not every enterprise made a profit at the beginning of the year.

[Tosovsky] Naturally, the present situation is hampering some enterprises. But here I would prefer to speak as a macroeconomist. First of all, the situation is hampering the enterprises which were unable to raise their prices by 25 percent when the interest rate rose.

It is also hampering the enterprises that were speculating last year and built up huge inventories. They had been accustomed to paying 6 percent interest, and now they suddenly do not need those inventories....

At a disadvantage, for instance, are also the exporters who have big orders payable with credits. Understandably, nobody in the world will ask the exporters for credit at, say, 18 percent interest.

The exporters' situation is truly more difficult if they give their customers credit at 8 percent interest, but have to pay the bank 18 or 19 percent interest. On the other hand, exporters gained from the three currency devaluations since the reform began. Thus, the cumulative effect of the devaluations increased the exporters' earnings by more than 100 percent. Therefore they have no right to claim that somehow they are being discriminated against.

[REPORTER] Let us return to the private sector, to what are small businessmen for the time being. Borrowing is truly dear for those people. Is it realistic to expect the interest rate to drop to some sensible level within the foreseeable future? Commensurately with the costs of borrowing in foreign countries, for instance?

[Tosovsky] I am unable to answer that question. Because of the structural changes and turns taking place in our country, I would be forced to try my hand at fortunetelling. Nevertheless, if we succeed in keeping inflation at a reasonable level, interest rates will decline further. For a time, however, they will probably remain at a somewhat higher level than in the case of our immediate neighbors with convertible currencies. That will be necessary to prevent the flight of capital.

But there is one thing we come up against here in conjunction with the private sector. Although most commercial banks are state-owned, they operate entirely on the principle of commercial profit and also take full advantage of it. In other words, they do not operate as state institutions but as market institutions. I would say that in some cases they are perhaps too market-oriented. Consequently, if the commercial banks operate on the principle of supply and demand, and if their main source of loanable funds is personal savings, then they are unable to lend to anyone at less than the interest rate on deposits and a markup to cover their costs, plus some

percentage points to compensate them for their risk. Therefore, we cannot demand that the commercial banks support the private sector in some nonmarket manner. They are supporting the private sector by lending to it at the lower limit of their interest margin.

But you, too, probably encounter demands that the state provide more support for private enterprise. That support may assume various forms. In Slovakia, for instance, they have established a guarantee bank, on the Austrian model, to support the private sector's development with state aid. Of course, we can help private businesses even through the tax system or with international subsidies. But we should not expect the commercial banks to act as nonmarket institutions.

[REPORTER] There was some hope that foreign banks would become established very soon in Czechoslovakia and would be providing loans on much more favorable conditions. But somehow those hopes have not been realized. Or are we mistaken?

[Tosovsky] Foreign banks in Czechoslovakia are still in their infancy. Besides the ones that are represented here (Creditanstalt or Citibank, for instance), some foreign banks hold minority stakes in many of our banks. So far as their operations are concerned, these banks are small for the time being, and therefore not much is being heard about them. Small in the sense that their capital stock is between \$10 million and \$15 million, which is the equivalent of Kcs300 million-360 million. Consequently, they are able to make loans totaling, say, Kcs4 billion at most. In comparison with Komerční Banka, which is able to make loans totaling more than Kcs200 billion, they are truly dwarfs.

Most foreign banks in Czechoslovakia, moreover, are unit banks, without branches or infrastructure. They are very cautious in their lending, and the loan applications are approved abroad. Therefore we do not think that the foreign banks are far more flexible than our banks are.

But there is one thing we intend to do. In a bill that is included in the government's legislative program and should be introduced in Parliament this autumn, we are assuming that foreign banks might want to open branches in our country. Which means that they would not have to bring in any capital. Thus their operations in our country would be unrestricted, depending merely on the foreign banks' own size. If large world banks were to come to us through this scheme, their participation could be big enough to make us fear them.

On the other hand, the infrastructure of our banks and savings banks is so developed that they practically have a monopoly position, despite their shortage of skilled personnel and equipment.

[REPORTER] On several occasions during the past two years, various foreign institutions and the representatives of foreign countries—including President Bush in

November of last year—promised us loans or outright grants for the private sector's development. What has become of those promises?

[Tosovsky] If we are speaking about the offer made by the President of the United States, it was \$60 million for the private sector's development. I have not been advised of that sum's arrival here, nor of the mechanism which would have been used for its distribution. But I do not think that promise has been kept. As a matter of fact, the distribution of financing for the private sector is a big problem. Many foreign banks—including the European Bank of Reconstruction and Development [BERD], for example—want to reach the private sector, but do not have staffs large enough to operate in entire Czechoslovakia. Therefore they are obliged to deal with the private sector through our own commercial banks. The latter collect and process the loan applications from private individuals and then submit the applications to the foreign bank. It is no mean task to evaluate, say, 30,000 loan applications. In other words, the mechanism is very complicated and is making the transfer of foreign capital to our country very difficult.

[REPORTER] Speaking of BERD, to which the Czechoslovak representative had arrived already three months ago, are the outlines of any sum taking shape that the bank would lend Czechoslovakia, or is it still too early to talk about this?

[Tosovsky] Nothing is being said as yet about that bank's specific position. Therefore we have no idea of what funds the bank has available, nor about where it intends to invest them. But there is one thing we do know. If that

bank wants to function, it must begin to do so very quickly and provide some loans soon. I will be more specific. Up to now the mentioned bank has had only expenses—to rent buildings, pay salaries, for furniture, to have prospectuses printed.... For all that it needs money, which it gets by giving us loans and collecting interest on them. Therefore we expect the first loans from that bank by this autumn.

[REPORTER] Let us revert to the commercial banks. Do we know which countries are the most keen to invest in Czechoslovakia?

[Tosovsky] Germany ranks first, already because of Volkswagen's entry. Austria ranks second, and France is probably third. From there on the league table is not so clear. There are some investments from the United States, but then there are investments also from Belgium, for instance. The Japanese have been practically absent so far. Japan has been mapping Czechoslovakia for some time, but it tends to minimize its risk. Moreover, Japan feels strong enough financially to wait for the second wave. When it feels sufficiently reassured that the risk from a legal point of view is minimal, it will buy assets from, say, German or Austrian interests. Its entry will be more expensive, but safer.

[REPORTER] And what about Arab capital?

[Tosovsky] Evidently, in conjunction with the Gulf war, the Arabs' capital has been absorbed at home. For the time being, they are not represented as much as we would like.

[REPORTER] We thank you for the interview.

Constitutional Court's Decision on Presidency

92CH0036A Budapest MAGYAR HIRLAP
in Hungarian 24 Sep 91 pp 1, 3

[Unattributed article including interview with Andras Hollo, general secretary of the Constitutional Court; place and date not given: "Constitutional Court Announces Decision; Difficulties and Differences of Interpretation"]

[Text] It was with enormous interest that political organizations and the political public opinion had awaited yesterday's announcement of the Constitutional Court, which took a position on the debate concerning the limits of authority of the president of the Republic, Arpad Goncz, and analyzed the issue of presidential immunity. "Who controls the Army in peace time?" was one of the questions asked.

The Constitutional Court's response was that parliament, the president of the Republic, and the government exercise collective control, but the commander in chief—the president of the Republic—is not the service leader of any branch of the armed services. As for the right to appoint, the decision makes it clear that the president cannot withhold his signature unless there are formal obstacles preventing him from doing so, or if the appointment seriously threatens constitutional legality and democracy. This definition is expected to fuel further debates over interpretation.

It was before a packed hall yesterday afternoon that the Constitutional Court announced its ruling. Seated in the front row were Minister of Defense Lajos Fur and Minister of Justice Istvan Balsai; also present, representing the parties were Viktor Orban (Fidesz) [Federation of Young Democrats], Ferenc Koszeg (SZDSZ) [Alliance of Free Democrats] and Pal Vastagh (MSZP) [Hungarian Socialist Party].

After Constitutional Court president, Dr. Laszlo Solyom, had announced, in the name of the Republic of Hungary, the court's decision on the collective motion put before it by the minister of defense, minister of justice, and the cultural committee of parliament, he read excerpts from the justification. This was followed by a reading of dissenting opinions rendered by constitutional justices Dr. Geza Kilenyi, Dr. Peter Schmidt, and Dr. Imre Voros concerning Part B, Paragraph 2 of the decision. Indicative of the difficulties of interpretation was the fact that in addition to the above, they also read the supporting opinions of six other constitutional justices. As a result the process lasted more than an hour.

After the decision had been announced, Justice Minister Istvan Balsai told the journalists present that they would inform the government, study the decision, and only then would formulate their position. Offering an instant interpretation of such a lengthy decision, according to him, would not amount to a serious response.

Defense Minister Lajos Fur added only that he felt the same way about the issue.

President Goncz: I Have Always Acted in Accordance With the Spirit and Letter of the Constitution

Yesterday, President Arpad Goncz visited the Budapest International Fair. At the end of his visit he was surrounded by journalists. Somebody asked him how he interpreted the decision of the Constitutional Court. With a friendly smile the president spread his arms and said the following to the journalists:

"I have not read the decision of the Constitutional Court, for I simply have not yet had a chance to. In the morning I was out of town and came directly here, to the fair city. Naturally I accept the constitutional interpretation of the court, for I have always acted and thought in accordance with the spirit of the letter of the Constitution. I will study the decision, and hope to be able to give you a more detailed response soon."

The president's press secretary, Andras Farago, informed us that we could shortly expect a statement in connection with the decision of the Constitutional Court.

Andras Hollo: The Right To Appoint Rests With the President of the Republic

Since the decision of the Constitutional Court and the wording of its justification regarding the scope of authority of the president of the Republic was perplexingly technical, and perhaps probably not even all that clear to the public, we asked Andras Hollo, general secretary of the Constitutional Court, for clarification:

[MAGYAR HIRLAP] Does the president of the Republic have the authority to forbid committing the Army in such cases as the cab driver blockade, for example?

[Hollo] In peace time, the head of state mandate applies only to personnel matters; it does not imply the authority to lead, control or command the armed forces. Leading the Army is the job of the commander. I think that it is important to point out, however, that the decision of the Constitutional Court is not retroactive, and that it was not ruling on any particular presidential decision.

[MAGYAR HIRLAP] Does the prime minister have the right to appoint the vice presidents of the Radio and Television without the consent of the president of the Republic?

[Hollo] The answer to your question is unequivocally no: The authority to appoint rests with the president of the Republic.

Laszlo Salamon: Government Gets Green Light To Fire People

The Constitutional Court disagreed with the decision of the president of the Republic to countersign the document, endorsing the appointment of television's vice president. Speaking at the press conference held barely a half an hour after the decision of the court had been released, Laszlo Salamon, president of parliament's Constitutional Committee, stressed, however, that this was only his reading of the ruling.

As the committee president pointed out, the decision would be of significant help in clarifying issues having to do with spheres of authority. In spite of this, the briefing was characterized by a certain degree of uncertainty as there was no detailed justification to refer to, and the committee president had only had time to read the decision once. Still it was found that since the appointment of the TV vice presidents had been done in full accordance with the existing statutory provisions, and presented no serious threat to our democratic order, the president of the Republic had no right to refuse to countersign. As to the question about whether or not this interpretation would give the government green light to initiate a whole series of possible dismissals, Laszlo Salamon said yes, adding that the filling of various functions was the responsibility of the government.

When asked how he would have taken the decision if he had been the president of the Republic, Laszlo Salamon sighed without commenting.

As far as the position of the commander in chief was concerned, the committee president made it clear that the decision definitely needed to be examined in light of the justifications and the terminology used in the Defense Law. One thing seems certain: At issue in this case was the constitutional role of the president in general, not his role as commander of the Army specifically.

Ferenc Koszeg: Possibility of Contradictory Statutory Interpretations

Ferenc Koszeg, spokesman for the Alliance of Free Democrats: As the supporting justifications and dissenting opinions have also revealed, legal interpretations in this case were extremely contradictory indeed. The Constitutional Court, however, could not sidestep its responsibility, and felt compelled—expanding its own scope of authority—to embrace one of several contradictory interpretations. The proper thing would be—as one of the dissenting opinions very correctly pointed out—for the Constitutional Court to call on parliament to try to clarify those provisions in the law that are open to contradictory interpretation.

Until now the customary manner in which contradictory provisions of the Constitution have been interpreted has been by mandatory consensus. In other words, the prime minister and the president of the Republic have had to signify that they were in agreement by furnishing joint signatures. Hungarian democracy, however, is much too

young and fragile to forego taking advantage of every possible opportunity to pressure competing political forces into seeking a consensus. The present decision has narrowed the decisionmaking authority of the president of the Republic at a time when the constitutional state, our democracy, is facing serious dangers.

Jozsef Szajer: Competency Cannot Reside in Two Places

"I am most reassured by the decision of the Constitutional Court," began Jozsef Szajer's evaluation. FIDESZ's parliamentary deputy explained: The rationale behind the ruling is very similar to the publicly expressed views of FIDESZ's judiciary committee. On the basis of the Constitution, FIDESZ has always held that the president's position was intended to be weak. Aside from the Constitution there are also certain sociological and political reasons why this is the interpretation that best suits the Hungarian legal system. As a result of the alliance between the MDF and SZDSZ, and of the subsequent revision of the Constitution, a strong, almost chancellery-like system of premiership has evolved, along with a relatively weak institution of Presidency. No political system can tolerate having competencies divided and parallel decisions made in two different places.

In my opinion the ruling of the Constitutional Court about who controls the Army is consistent with this principle and with the existing constitutionally established system. For it is not possible to have two sides making parallel decisions in defense matters. The commander in chief of the Army is a titular title which in many of the established democracies is usually bestowed on monarchs. This, however, does not mean that in peace time the authority to command is a license to abuse that authority, but the possibility is inherent in the system, so there is a need for consensus. In other words, the present interpretation does not amount to a curtailment of the president's powers.

As far as the appointments are concerned, I think everyone can rest assured that the president of the Republic does indeed have certain powers; in other words that he cannot be forced into doing anything that is not explicitly spelled out in the Constitution. According to the Constitution, the president can theoretically exercise his silent veto power in cases where an appointment is either contrary to the existing statutes or is inconsistent with our democratic system and general principles, for he is the symbolic embodiment of the nation's unity. In this respect, the powers of the president are, for the most part, only formal, but in special cases they may become very important. Presidential immunity was a formal issue of constitutional interpretation, for the statute makes it clear: Protection for the president of the Republic against criminal liability must be based on a separate set of laws.

**The President Is Not Responsible to Parliament;
Decision and Justification**

Below is the text of the Constitutional Court's ruling:

**IN THE NAME OF THE REPUBLIC OF
HUNGARY**

Pursuant to motions brought before the Constitutional Court by the minister of defense, minister of justice, and the cultural, education, science, sports, television and press committees of parliament on the issue of constitutional interpretation, the Constitutional Court—with dissenting opinions by constitutional justices Dr. Geza Kilenyi, Dr. Peter Schmidt, and Dr. Imre Voros on Part B, Paragraph 2, and supporting opinions by constitutional justices Dr. Antal Adam, Dr. Geza Herczegh, Dr. Tamas Labady, Dr. Andras Szabo, Dr. Odon Tersztyan-szky, and Dr. Janos Zlinszky—hereby hands down the following decision:

Part A

On the basis of Paragraph 40b Section 3, and taking into account Paragraphs 29 and 30a and Paragraph 35 Section 1 of the Constitution, the Constitutional Court has made the following determination regarding the respective spheres of authority of parliament, the president of the Republic, and the government in controlling the armed forces.

1. All of the organizations listed under Paragraph 40b Section 3 must take part in overseeing the armed forces in accordance with the roles specified in the Constitution, and without stepping beyond those roles. No organization other than those named in Paragraph 40b Section 3 has jurisdiction over the armed forces. Leadership functions other than those pertaining to control cannot be constitutionally defined. Only in accordance with and within the limits of the controls exercised by the overseeing organizations can the commander of the Hungarian Army assert its leadership authority. The orders issued by the commander of the Hungarian Army and the Border Guard must be in accordance with the guidance provided by parliament, the president of the Republic and the government within their respective spheres of authority.

2. Without a constitutional amendment new roles having to do with control over the armed forces, other than those already established in the Constitution, can only be assigned by parliament if they do not infringe upon the constitutionally defined roles of the other organizations listed in Paragraph 40b Section 3 as having right of oversight.

3. a) Paragraph 29 Section 2, which states that the president of the Republic is the commander in chief of the Army, is not a rule having to do with jurisdiction. The Constitution does not, within the president's sphere of authority over the armed forces, distinguish among, or list specific rights that make up the function of the commander in chief. The constitutional significance of Paragraph 29 Section 2 lies in its stipulation that the

president of the Republic must be invested with at least one power that has traditionally rested with the commander in chief.

The role of the president of the Republic as commander in chief is a part of his legal status under the Constitution, and is not a rank or assignment in the Hungarian Army or the Border Guard. The commander in chief of the armed forces is not a part of the armed forces; he is their overseer, not their leader. The authority of the commander in chief as overseer is thoroughly defined in the Constitution and relevant laws enacted in accordance with the Constitution; Paragraph 29 Section 2 of the Constitution does not directly imply any additional rights.

b) The authority of the president of the Republic to oversee the activities of the armed forces constitutionally does not differ from his other powers; the same conditions apply to his right to appoint and consent in this area as those that govern his authority to appoint, consent and confirm in other spheres of his jurisdiction.

4. The overseeing of the day-to-day operations of the armed forces falls within the jurisdiction of the government. In Paragraph 35 Section 1 Subsection h) the reference "overseeing of operations" points to that aspect of the authority to oversee which pertains to executive power, hence in accordance with its constitutional status as the exclusive wielder of all executive powers, the government's jurisdiction embraces all forms of overseeing authority which under the prevailing laws are not expressly vested with parliament or the president of the Republic. The spheres of authority held by these three organs must provide complete oversight over the armed forces. The authority to oversee the operation of the armed forces cannot be legislatively taken away from the government; at the same time, ensuring that the constitutional division of powers is preserved and leaving the legal status of the president of the Republic intact, the jurisdictions both of parliament, and the president of the Republic may theoretically be expanded.

Part B

In accordance with Paragraph 30a Section 1, Subsections h), i), and m), and of Paragraph 30a Section 2, the Constitutional Court has made the following determination about the authority of the president of the Republic to appoint and the question of ministerial endorsement:

1. With the exception of the appointment authority specified in Paragraph 48 of the Constitution, all other appointments, promotions, confirmations and dismissals (hereinafter: appointments) delegated to the president of the Republic by the Constitution or separate statutes, and the president's authority to confirm, are subject to countersigning by the prime minister or the competent minister. Their endorsement is necessary to validate the presidential action. By giving its endorsement, the government agrees to be held politically accountable for the actions of the president of the Republic.

2. The president of the Republic must reject the appointment or confirmation if he has reason to believe that the conditions stated in the pertinent statutory provisions have not been met. The only other cause to reject an appointment or confirmation is if the president of the Republic has good reason to believe that acceptance of the recommendation would seriously hinder the democratic functioning of the state apparatus. From the latter point of view, the president's right to review is limited, in the case of appointments, to the person recommended for appointment, or, in the case of a confirmation, to the content of the given proposal.

3. If the law stipulates that in the course of the nomination process the appointee must be interviewed or commented on by a certain organization—such as a committee of parliament, for example—then listening to and taking a position on the appointee must be viewed as necessary criteria for the process to be valid, and it is the responsibility of the president of the Republic to ascertain that these steps have been taken as legal preconditions of the appointment. The president of the Republic must take into consideration the position taken by the organization involved in the process only if expressly so required by law. Consideration means including the essence of that position in weighing the facts before the decision is made; it is not binding on the decision itself.

Part C

In accordance with Paragraph 31a Section 1 of the Constitution, the Constitutional Court has made the following determination:

1. The immunity of the person of the president of the Republic is a part of the president's legal status under the Constitution. By virtue of his immunity, the president of the Republic cannot be held politically accountable by parliament, and his legal responsibilities are limited to those specified in Paragraph 31 Section 4, Paragraph 31a Sections 2-6, and Paragraph 32.

2. Protection for the president of the Republic against criminal liability must be provided for by law. The content of such laws is determined by parliament on the basis of its own criteria.

The Constitutional Court will publish this decision in MAGYAR HIRLAP.

Woerner Remarks Quoted by Visiting Journalist

92CH0065A Budapest FIGYELO in Hungarian
26 Sep 91 pp 1, 5

[Unattributed article: "The Enemy Has Vanished"—The Executive Secretary of NATO Responds"]

[Text] A Hungarian delegation composed of university professors, researchers, and journalists paid a visit to NATO headquarters in Brussels on 12-13 September. NATO Executive Secretary Manfred Woerner received the delegation, including [FIGYELO editor in chief] Gyorgy Varga. The 58-year-old German politician has

served in this post since July 1988. We quote the following noteworthy passages from his responses to questions raised by members of the delegation:

During the Soviet coup attempt, when the outcome of the coup had not been decided, we took another step in the direction of developing NATO's relationship with Hungary in the course of a rather dramatic conference held by the foreign ministers of NATO countries. This represents our policy even after the failure of the coup. I hope that the November conference of leaders of NATO countries to be convened in Rome will decide to take yet another step forward in developing our relations.

Do not forget: Although the coup had failed, the most difficult period from the standpoint of the Soviet Union is still to come. For this reason we must count on great uncertainty and instability, but I am no longer concerned about a repeated coup attempt.

Insofar as events in Yugoslavia are concerned, we are worried about the situation that evolved and we discuss the events each and every day. NATO does not presently play an active role in settling that situation. This is the business and function of Europe. NATO provides political support in this regard.

The military blocs have ceased to exist. Fortunately, the enemy has vanished, and we do not need enemies. NATO will continue as a political cooperative organization.... This is the sole security oriented organization of a global character. The new security system of a global character will not function between blocs, and therefore there is no need for Hungary to become a member of some bloc.... We must establish a security system in which no country can attack another country with even the faintest hope of succeeding.

In addition to NATO's political and military function, the third dimension of the organization will be to organize scientific cooperation and environmental protection among the member countries. In reality, this part of the organization has been open, thus Hungary has also been able to join certain research programs. During his recent visit to Hungary the NATO scientific director agreed with competent Hungarian organizations as to the subject matters which Hungarian researchers might want to deal with—primarily in the fields of environmental protection and environmental technology. I wish to underscore the fact that the scientific activity organized by NATO is not of a military character. We are aware of the fact that the security of nations is endangered by several threats of a global character, such as environmental harm. Accordingly, in the future, NATO will continue to support endeavors based on international cooperation. (In 1991 they will expend \$35 million to finance scientific cooperation in the form of scholarships, seminars, etc.—The editor.)

Insofar as COCOM is concerned, we have relaxed the earlier stringent requirements and barriers vis-a-vis Hungary. Hungarian developments encourage us to completely discontinue COCOM requirements, which still

restrict the importation of state-of-the-art technology to Hungary. I stress: This is my personal opinion! Some states still worry that through some connections certain technologies can still be transferred from Hungary to undesirable hands. But we have already taken the first step, and, how should I say this, the next step must be taken, we must further relax the COCOM requirements.

1990 Political Party Finances Summarized

92CH0065B Budapest FIGYELO in Hungarian
26 Sep 91 p 9

[Article by Dr. Gyorgy Kocsis: "Party Finances"]

[Text] The following table summarizes the revenues and expenditures of 33 parties and associations based on information published in MAGYAR KOZLONY. A number of conclusions can be reached by comparing the various data with the election results.

Revenues derived from membership dues amounted to less than 5 percent of all revenues; their significance was marginal.

More than half of the revenues was provided by the state budget; one could say that the cost of system change had been underwritten by society.

Support provided by various legal entities and private persons, as well as other contributions amounted to 10 percent of the revenues. A decisive part of this had been received by the MDF [Hungarian Democratic Forum] from private persons abroad, while the Agrarian Alliance received support from agricultural social organizations and the MSZMP [Hungarian Socialist Workers Party] from private persons.

Among other revenues profits made by party enterprises played a decisive role in MSZP [Hungarian Socialist Party] finances, while similar roles were played by an 82 million forint loan granted to the MDF, and a 48 million forint loan to the SZDSZ [Alliance of Free Democrats].

Regarding expenditures, support provided to party organizations at various levels amounted to 6 percent.

Personnel costs—wages and related expenditures—amounted to 25 percent of all expenditures. The largest amount of this nature had been incurred by the MSZP as a result of having to maintain the staff that remained on the payroll. The SZDSZ showed a greater inclination for "becoming a party" than the MDF, followed by the

MSZDP [Hungarian Social Democratic Party], FIDESZ [Federation of Young Democrats, the FKGP [Small-holders Party] and POFOSZ [National Association of Political Prisoners].

General expenditures amounted to almost one-quarter of all expenditures. Most of these covered building rentals and maintenance costs. In this category, too, the expenditures of the MSZP were significant along with the SZDSZ and the MDF.

Expenditures related to the press and propaganda represent 6 percent of all expenditures. The fact that more than half of this amount had been used by the MDF which is at odds with the press today, is interesting.

Expenditures related to the elections represented approximately one-third of all expenditures. The MSZP alone spent more money on the elections than the parties which took first and second place, while results produced by the Agrarian Alliance, which took fourth place, do not reflect the investments made.

Other expenditures amounted to 5 percent of all expenditures, half of which were incurred as a result of the SZDSZ repaying its loan.

Although the expenditures of certain parties exceeded their revenues, their deficits did not exceed 10 percent of their respective annual budgets if one considers carry-overs from previous years. The MSZDP is the exception.

Many have already asserted the obvious that in the course of elections people voted for changes. The table clearly shows that the expenditures incurred by left-wing parties, and primarily by the MSZP had been in vain as compared to the election results of these parties, while the table also shows that the MDF had won the first elections primarily because it was able to successfully relate to the press and take advantage of its campaign advertising.

Based on the first-year record and on public opinion poll results one finds that the people have become strongly disillusioned with both the ruling party and the opposition parties, even if not to the same extent. In the interim elections these parties were unable to show excessively good results despite the deployment of "big guns," and the people decisively turned against them. All this may serve as a warning to all parties: They could be spending millions on elections in vain as long as the masses disappointed with their promises turned away.

1990 Party Data (in millions of forints)

Parties	Revenues					Expenditures						
	Mem- bership Dues	State Budgetary Support	Other Contri- butions	Other	Total	Contri- butions	Per- sonnel	General	Press, Adver- tising	Elections	Other	Total
Agrarian Alliance	-	45	28	1	74	-	5	14	3	29	-	51
Left-Wing Revision Party	-	-	-	-	-	-	-	-	-	-	-	-
Democratic Coalition	-	20	5	1	26	1	1	2	3	9	-	18
Transylvanian Hungarians' Party in Hungary	-	-	-	-	-	-	-	-	-	-	-	-
Federation of Young Democrats	-	64	8	4	76	8	15	25	3	27	5	83
Independent Smallholders, Agricultural Workers, and Citizens Party [FKGP]	6	83	1	6	96	21	11	21	3	34	4	94
Independent Republican Party	-	2	-	-	2	-	-	1	-	-	1	2
Catholic People's Party	-	-	-	-	-	-	-	-	-	-	-	-
Christian Democratic People's Party [KDNP]	2	51	7	-	60	12	6	19	2	26	-	65
Liberal Citizen Alliance (Entrepreneurs' Party)	1	21	2	1	25	1	2	8	2	8	3	24
Hungarian Democratic Forum [MDF]	14	143	68	95	320	21	32	50	57	94	14	269*
Hungarian Independence Party	-	8	-	-	8	-	2	2	-	2	-	6
Hungarian Humanists' Party	-	2	-	-	2	-	-	-	-	1	-	1
Hungarian Liberal Party	-	2	-	-	2	-	-	1	-	1	-	2
Hungarian Liberal People's Party	-	6	-	-	6	-	2	2	-	1	-	5
Hungarian People's Party —National Peasant Party	-	15	-	3	18	-	6	8	5	3	-	22
Association of Hungarian Political Prisoners [POFOSZ]	1	15	-	-	16	4	9	2	-	-	-	15

1990 Party Data (in millions of forints) (Continued)

Parties	Revenues					Expenditures						
	Mem- bership Dues	State Budgetary Support	Other Contri- butions	Other	Total	Contri- butions	Per- sonnel	General	Press, Adver- tising	Elections	Other	Total
Hungarian Republican Party	-	2	-	-	2	-	-	-	-	-	-	-
Hungarian Freedom Party Alliance	-	2	-	-	2	-	-	-	-	-	-	-
Hungarian Social Demo- cratic Party [MSZDP]	-	28	7	3	38	2	19	17	-	20	2	60
Hungarian Socialist Party [MSZP]	28	72	5	193	298**	23	268	141	15	170	18	635
Hungarian Socialist Workers Party [MSZMP]	12	35	20	1	68	5	3	21	4	21	2	56
Hungarian Green Party	-	3	-	-	3	-	1	-	-	-	-	1
Hungarian Cooperative and Agrarian Party	-	2	1	-	3	-	1	-	1	-	-	2
Munnich Ferenc Society	-	6	-	-	6	-	1	1	-	-	3	5
People's Will Party	-	-	-	-	-	-	-	-	-	-	-	-
Alliance of Free Demo- crats [SZDSZ]	11	132	15	67	225	1	36	52	7	75	49	220
Freedom Party	-	2	-	-	2	-	-	-	2	-	-	2
Association of the Poor and the Dependent	-	-	-	-	-	-	-	-	-	-	-	-
Social Demo- cratic Party	-	7	-	1	8	-	1	2	-	2	-	5
Election Party Alliance for the Village and the Coun- tryside	-	2	-	-	2	-	-	-	-	1	-	1
Party for a Hungarian Countryside	-	2	-	-	2	-	-	-	-	-	-	-
Total	75	772	167	376	1,390	99	421	389	109	524	101	1,643

*On election day the MDF owed 83 million forints.

**The MSZP carried over an amount of 428 million forints from its previous year's revenues to cover its 1990 expenditures.

Eminent Domain Rules To Be Revised

92CH0065C Budapest FIGYELO in Hungarian
26 Sep 91 p 21

[Article by Dr. Gabor Kiss: "In Progress: The Law on
Eminent Domain To Be Revised"]

[Text] The provisions of Law No. 31 of 1989 that amended the Constitution had already foreshadowed the changes that led to the establishment of foundations for a democratic constitutional state. As a result of these amendments, Paragraph 13 of the Constitution provides that property can be expropriated only in exceptional

cases, based on public interest, in cases provided for by law, and along with full, unconditional, and immediate indemnification.

Law No. 22 of 1990 repealed and amended certain laws and decrees with the force of law to provide increased protection for property and to establish consistency with constitutional rights. Thus it also amended Decree With the Force of Law No. 24 of 1976, narrowing the scope of conditions for expropriation in order to uphold the exceptional character of expropriation, and repealing special rules which limited the amount of indemnification that could be provided. But Law No. 22 of 1990 did not consistently repeal all provisions that could violate certain constitutional rights or that actually conflicted with constitutional guarantees against expropriation.

A revision of the state's authority to expropriate and a restatement of the entire body of relevant law in a uniform fashion and in the form of statutory law constitutes a needed legislative step in the process of transforming the legal system. Considering the complexity of this field of law, however, this revision also affects laws and legal provisions in other fields of law whose revision is also in progress.

Public Interest

Due to the need to establish permanence in this regard, a new legal provision, a statute uniformly encompassing all legal provisions related to expropriation, can be codified only after the creation of related laws. At the same time, however, provisions that are inconsistent with the effective provisions of the Constitution must be repealed now.

The already mentioned Law No. 22 of 1990 narrowed the scope of conditions for expropriation in order to give force to the exceptional character of expropriations, and from the future standpoint ruled out the possibility of expropriating property for the benefit of social organizations and cooperatives. In contrast, however, another provision that enabled the expropriation of property in order to discontinue a privately owned outlying farm within the contiguous land area of a state farm remained unchanged.

This condition for the expropriation of property is inconsistent with the provisions of Paragraph 9 and Paragraph 13 Section 2 of the Constitution. Guarantees in a modern market economy demand that state public property involved in the state's entrepreneurial activities not enjoy distinguished protection. For this reason the above condition must not be regarded as one that serves a public interest and that warrants the expropriation of privately owned real property. The rules of eminent domain must consistently enforce the principle that property can be acquired as a result of expropriation only for the benefit of state organs or autonomous local governments which truly represent the public interest.

At Market Value

Consistent with requirements pertaining to the entire scope of expropriation, indemnification payable as a result of expropriating real property must be in the amount of the actual market value of the real property to be expropriated. Any provision of law which fails to enable a clear-cut enforcement of this principle contradicts the provisions of Paragraph 13 of the Constitution.

Provisions contained in Paragraphs 8 and 9 of the decree with the force of law on expropriation provide guidelines with respect to determining the amount of indemnification not in the form of examples, but as exclusive methods for making such determinations. It would then theoretically follow that other circumstances—such as factors which determine market value—could not be taken into consideration. Even though courts, by now, uniformly determine the amounts of indemnification payable in conjunction with expropriations on the basis of actual market value, it is absolutely necessary to repeal legal provisions which may be interpreted to rule out this practice.

A rule contained in Paragraph 14 Section 2 of Law No. 24 of 1976 provides that a cooperative is entitled to monetary indemnification after real property in common use by a cooperative even if the cooperative does not own that property. This provision has also violated owners' rights before. In due regard to changes in laws on cooperatives, paying indemnification to cooperatives rather than to owners for agricultural real property in common use by a cooperative will continue to be untenable in the future.

Changing this provision would entitle owners to receive indemnification pursuant to Paragraph 143 Section 1 of the decree with the force of law, whenever a piece of real property in common use by a cooperative was expropriated. Ownership shares would then be determined on the basis of real property records and the gold crown value of the land. The amount of indemnification would be divided among the various owners in proportion to the mutual ratio of land contributed for common use.

Immediately

Paragraph 20 of the decree with the force of law establishes unjustified long deadlines for the payment of indemnification and for the transfer of ownership of property received in exchange. These do not permit the appropriate enforcement of the principle of immediate indemnification. For this reason the established deadlines must not be sustained. It would be more appropriate to apply in this regard the general rules of state administrative procedure, i.e., that deadlines be established by the proceeding state administrative or judicial organ while duly observing the requirement for immediacy regarding indemnification.

In order to harmonize Decree No. 33 of 5 November 1976 implementing the provisions of Decree With the Force of Law No. 24 of 1976 concerning expropriation

on the one hand, with the text of the Constitution now in force on the other, the Ministry of Justice has begun performing codifying work aiming for the repeal of the above-described legal provisions that conflict with, or are repugnant to, the Constitution. As a result of this work it is hoped that in the future fewer petitions will be submitted to the Constitutional Court challenging these unconstitutional provisions.

One must clearly understand, however, that the repeal of the above provisions will constitute only a first step on a path that in the end leads to the laying of foundations for a modern law on eminent domain.

Finance Ministry on 1992 Budget, Convertibility

*92CH0063D Budapest FIGYELO in Hungarian
26 Sep 91 p 13*

[Article by F.K.: "There Will Be No Fiscal Terror"]

[Text] At a press conference last week the Finance Ministry disclosed the basic principles which served as the foundation for next year's budget and provided approximate figures. Although there is no lack of goodwill on part of the government or the professionals at the ministry, it is questionable whether the assumptions which serve as the basis for the projections are valid, and if so, to what extent.

State Secretary Peter Kiraly said that the government based its 1992 projections on the maximum permissible deficit level of 60 billion to 80 billion forints [Ft]. The primary goal is to further reduce the inflation rate, according to the government's economic policy directive. The extent to which the wishful thought according to which the "unfortunate events" in neighboring countries exert a favorable, rather than unfavorable effect on the Hungarian economy will be fulfilled is one of the questions, and who knows what the clear-cut answer to this question could be?

The press conference primarily dealt with the projected expenditures; only a few items on the revenues side were mentioned. In this regard an assumption once again played a decisive role, notably the belief that the economy would be beyond the deepest crisis point by the second half of next year and that by then recovery would have started.

Most of the Ft40 billion in derived from privatization—a process already started in 1991—will be expended in the upcoming year not to defray the state indebtedness, but to stimulate the economy (creation of workplaces, reorganizing enterprises unable to produce, etc. Deviating from its original plans, the Finance Ministry would not change in 1992 the sales tax structure that prevailed thus far because a change like this would by all means fuel inflation.

Insofar as the anticipated extent of financing the budget deficit was concerned, individual savings had already increased this year, and thus the Finance Ministry

planned to finance the deficit by mobilizing these savings. (Central bank financing can no longer be used in part as a result of legal restrictions, and in part because such financing increases inflation.)

In responding to questions Deputy State Secretary Gyorgy Naszvadi said that the IMF has already agreed to an Ft86.5 billion deficit this year provided that the level of deficit would be reduced next year. The Ft60 billion to Ft70 billion deficit level planned for next year is still within the limits authorized by the IMF, but any excess deficit would draw serious consequences with respect to the economy.

Insofar as the planned reorganization of the barely functioning health care system and the impossible situation of the Social Security Fund were concerned, the Finance Ministry said that it would regard as great progress if by 1992 the various branches of insurance would become separate and if some portion of receivables held by Social Security was collected. At present the budget indicates that receivables amount to a total of Ft85 billion.

Asked if there were sufficient reserves to "set in motion" the Ozd Foundry Works and the similarly nonviable large enterprises, and if there was, whether the Ft10 billion of reserves scheduled in the budget would suffice, the response was a reassuring "yes." The problem pertains primarily to the "how" questions, and not to the "out of what" question.

A report was received at press time according to which the forint would be rendered convertible in 1993. In commenting on the report MNB [Hungarian National Bank] deputy president Imre Tarafas added that many economic conditions had to be fulfilled before the forint could become convertible, but it would be possible to establish a majority of these conditions in 1992.

If the 1992 budget deficit amounts to "only" between Ft60 billion and Ft70 billion, if privatization also progresses successfully from the standpoint of state revenues, if the burden incurred as a result of compensation does not substantially exceed the related expenses, if it is possible to collect the debts owed to Social Security, and if the MNB's foreign exchange reserves are sufficient, the forint will appear on the exchange rate charts in international financial centers in 1993.

1990 Budget Performance Report Criticized

*92CH0063C Budapest FIGYELO in Hungarian
26 Sep 91 pp 1, 13*

[Article by Emilia Sebok: "Budget: When Are We Going To Close the Books?"]

[Text] Debate over the government's 1990 budget performance report has been going on for weeks, and it might not even come to an end before discussing next

year's proposed budget. Indeed, not too many people are interested in what has happened to last year's public funds.

Parliament has been leafing through the legislative proposal concerning last year's state budget performance for weeks. They pick it up on occasion, talk a bit about it, then set it aside again claiming that some urgent work needs to be performed. This is so, even though some lessons could be learned from thoroughly examining the first closing statement in decades that is truly worth discussing, while making use of the lessons learned and criticizing the report submitted by the ASZ [State Accounting Office]. The latter also revealed that the government has taken one or two illegal steps in the course of implementing the budget law, and that consequently the law concerning last year's budget performance also included certain illegal elements. All this is true, nevertheless it seemed as if the ASZ had become frightened by its own discovery and did not dare to clearly recommend the amending of the closing statement.

But the series of violations of law by the government continue: Guidelines for the 1992 budget should have been submitted to parliament by 31 August and this did not take place either. Chapter by chapter projections should be submitted by 30 September, but it seems unlikely that this would take place because the government remanded to the Finance Ministry for redrafting the proposed submission discussed last week.

And as we all know, the budget is not merely an internal affair; it must also be approved by the IMF, and the IMF is not about to judge only the size of deficit. One could explain at length, for example, why privatization revenues had been included on the revenues side of the budget, but such explanation would be unacceptable according to their strict logic. Thus the deficit we show as amounting to between 60 billion and 80 billion forints [Ft] would amount to between Ft80 billion and Ft100 billion according to the IMF.

But the fact is that mistakes have been made and that the report has many shortcomings, as one could learn best from the ASZ report. ASZ had proved with its audit of last year's budget that it has begun to measure up to its function.

What explains the extensive indifference that received last year's closing statement? It would be too simple to say that no one was interested in last year's stories, that the ship had passed by and that it was not worth our while to search for money already expended. Quite obviously, no responsible parliament could think this way, because in doing so it would surrender its role of checking the government thus providing a blank check to the executive branch.

The indifference might be explained to a certain extent by the fact that the 1990 budget had been prepared by the Nemeth government and that it reflected the economic policy of that government. This budget had been implemented by two administrations and three finance ministers. Consequently, many representatives might

also feel that it would be unfair to treat the closing statement stringently since the persons on the other side were not really responsible for the budget. In addition, the legislative schedule is also terribly confused from the standpoint of timing—a matter for which the present parliament should be held accountable—and therefore legislators are trying to get last year's finances over with.

This approach might be dangerous, however. On the one hand, despite the extraordinary situation, parliament should not forgo the opportunity to learn very many useful lessons to be applied in the budget legislation of upcoming years. On the other hand, any prevailing government may be and must be held accountable for the implementation of laws in force. From this standpoint legal continuity exists in regard to the governance of the country even if cabinets change in the meantime, according to SZDSZ [Alliance of Free Democrats] Representative Gyula Gaal, who thoroughly analyzed the 1990 budget performance report. If a cabinet or a finance minister does not wish to recognize the obligations created by laws prior to its taking office, it should urgently request parliament to amend those laws. There is no other way!

In this regard the learning period is also multitiered not only for individual representatives and for parliament, but also in the framework of exercising parliamentary democracy. The remarkable phenomenon presented by the present debate over the closing statement is that only the opposition parties expressed strong criticism based on heavy work performed by experts. This most likely comes as natural in a democracy in its apprentice period. But the ruling parties and their representatives will not be able to enjoy this grace period for long. After a while the responsibility of parliament will be confronted by loyalty toward the government. But this phenomenon already presents itself in a striking manner, when ruling party representatives in their capacities as members of the budget committee do not feel that the government be held accountable for the half a billion forints that disappeared from the Employment Fund.

The ASZ report holds that much of the 1990 budget performance cannot be checked by way of consistent audit methods. Nevertheless, this organization found certain straps to hold on to, as a result of which they managed to unveil a few rather important correlations and, unfortunately, some irregularities, too. This took place, even though the auditors had no easy task. Throughout their work they endeavored to observe the fact that the budget law was the yardstick for audit, and not the subject of the audit. Nevertheless they were also forced to characterize the law by saying that the structure of the budget was presented at a rather high level of summary and provided ample opportunity for the government to utilize funds in a manner other than planned and to regroup internal allocations. In other words, the standards for audit had been loose from the outset, they were filled with loopholes. This fact strongly limited the

possibility of exercising substantive control over the budget and in the final analysis rendered the exercise of authority by the National Assembly to a certain extent a formality.

This year's budget establishes a far more stringent framework for the government, and the state household budget now being prepared will further restrict flexibility.

According to ASZ's organic act, ASZ audits must also extend to verify that no funds may be regrouped unless authorized by the National Assembly, and that the government not exceed the budgeted level of a single expense item. But as we have mentioned before, the 1990 budget law permitted a rather high degree of flexibility for the government to reallocate funds, and therefore no objections could be raised when expenditure items were exceeded. In contrast, the ASZ became uncertain wherever something could have been questioned.

In his speech before parliament the ASZ chairman said that from among the fixed projections contained in the 1990 budget (the parties and the Housing Fund) were changed without prior authorization by parliament. Accordingly, the government had failed to abide by its formal obligation. In contrast, at another place in his speech the chairman said that the government's management of the annual budget could not be objected to from the standpoint of legality. But it is not worth our while to brood over these matters, since in the final analysis, the use of added support could not be questioned in these instances, and because this year's budget law did not enable the recurrence of such situations.

It is remarkable that most of the ASZ report analyzes payments and expenditures incurred by the government. In contrast, not much is said about the revenue side of the budget, even though one hears about huge amounts of unreported income and unpaid customs duties.

ASZ Vice Chairman Laszlo Nyikos did not deny the truth of these reports. Audits performed by accounting offices are centered around expenditures everywhere in the world. Even accounting offices which have been functioning for 200 or 300 years only recently began to examine the revenue sides of budgets. Accordingly, this could not really be expected from the scarcely two-year-old ASZ. But watching tax revenues from this standpoint is also part of the organization's audit program.

The management of state property, the activities pursued by the AVU [State Property Agency] and privatization revenues should also be audited by ASZ, and ASZ' activities should be redirected somewhat in that direction. At issue is the sale of some huge assets, and in this regard there are no controls like the ones which accompany the performance of the state or local government budget are to be exercised by society or by the opposition.

FIDESZ's [Federation of Young Democrats] substantive and specific objections to certain government spending received the greatest publicity. In these statements they criticized several points of the the closing statement.

They most sharply "attacked" the unsettled finances of the Defense Ministry, which involved no small amount of money. One might ask why ASZ performed a detailed examination of the Ministry of Culture budget, and failed to look into the accounting of the Defense Ministry which managed far more money.

It could have done so at least after FIDESZ pinpointed the problems. But ASZ has an approved audit program, it cannot jump from one subject to another depending on the direction from where the political winds blow. But soon it will be the Defense Ministry's turn and at that time we will receive a detailed response, as promised by Vice Chairman Nyikos.

Considering the present condition of parliament it would be inconceivable for that body not to accept the closing statement as submitted. Nevertheless a proposal submitted by Gyula Gaal will force the government to provide some explanation. In it Gaal requests an explanation for the shortfall in the Employment Fund, and regards a paragraph in the legislative proposal concerning the acceptance of the budget proposal as unacceptable. Based on this paragraph the local governments should repay Ft1.8 billion to the state budget.

It would be unfair to withdraw long expended funds on the basis of measures promulgated in the course of the year which, on top, are not even laws. In this conjunction the ASZ report also indicated that the proposed action would not be consistent with laws presently in force. A National Assembly resolution proposed by the organization's chairman would still call upon the government to take "the applicable steps," but only in general. In other words, there still is much to be learned about parliamentary democracy, and within that the efficient exercise of parliamentary oversight.

Codifying Tasks; Corporation Law To Be Amended

92CH0063E Budapest FIGYELO in Hungarian
26 Sep 91 p 21

[Article by Janos Follinus: "Codifying Tasks; Corporate Law To Be Amended"]

[Text] Economic laws enjoy priority in the present phase of legislative activities; progress in regard to these is fundamentally a function of the National Assembly's workload and its capacity to debate; within these laws the settlement of ownership conditions has top priority, according to Justice Minister Istvan Balsai at a press conference the other day. The priority status of these legislative tasks also required the reinforcement of leadership in the ministry by appointing Bela Bartfai, the head of the civil and economic law division as deputy state secretary.

Administrative State Secretary Tibor Bogdan said that at this time economic legislation consists of three major groups, two of which can be dealt with favorably in the present period, but one cannot. The former category

includes codifying functions without which one could not start out in the direction of a market economy, these represent the minimum requirements in a market economy. The performance of other functions is delayed by the absence of market conditions which enable the performance of comprehensive codifying work. At the same time we are witnessing the dismantling of a sweeping majority of state property through privatization, the complex process of change in ownership which may have its beneficiaries as well as its aggrieved persons. Insofar as the conditions and circumstances of the complexities with which the countries of East Europe now struggle are concerned, this problem has not been resolved anywhere in the world. The Hungarian compensation system has been declared to be consistent with market principles by both the German minister of justice who paid a visit here the other day and by IMF experts. Nevertheless, in the form of a comprehensive correction to existing legal provisions pertaining to privatization, codifying work to clarify contradictions that surfaced in the meantime will take place soon. The state secretary discussed new legislative proposals concerning cooperatives which will fundamentally influence the organizational and operational order and property conditions of cooperatives.

Speaking of the new legislative proposal concerning the corporation law, Deputy State Secretary Laszlo Kecskes said that Law No. 6 of 1988 concerning corporations opened the path for entrepreneurs and investors to choose the most favorable form of operation from among several possible forms of association, and thus helped change the economic structure. More than 30,000 business corporations do business today. Since the effective date of the law however, certain inaccuracies in the law have surfaced. It has become apparent that in certain respects it would be possible to use simpler solutions than those provided in the law. The present amendments were not intended to change legal concepts because changes would harm the stability of the evolving practice and the sense of security with respect to the law.

The legislative proposal that has already been approved by the appropriate National Assembly committees would simplify final settlements by business companies not organized in the form of legal entities. If final settlement takes place within 30 days from the day a company without a legal successor goes out of business, the requirement to publicize the liquidation in two steps can be omitted. Another simplification of the requirements is that while today leading officers of a company must jointly submit various statements to the court of registry, in the future any one of the leading offices may do so.

A substantial simplification has been introduced with respect to limited liability corporations and stock corporations insofar as the raising or decreasing capital stock is concerned. In addition, the legislative proposal would also set the proportion (amount) of capital stock that must actually be available at the time a limited liability corporation or a stock corporation is formed.

Rules for registering a firm are also being changed: The legislative proposal renders the framework and content of legal oversight by courts of registry more accurate and clear-cut. At the same time the developing nationwide computerized registry of firms enables other legal solutions which facilitate the work of both clients and courts of registry.

The involvement of the California-based Berkeley University professor Richard Buxbaum in drafting the new corporation law is promising. He is an internationally recognized authority on the subject as a result of his work involving the codification of the particularly divergent American corporation law.

Bill To Halt Cooperative Privatization Criticized

92CH0063A Budapest FIGYELO in Hungarian
19 Sep 91 p 28

[Article by Bonyhadi: "Lex Mihalik"]

[Text] The question presents a real choice: Does a suspension of the law on transformation as it applies to agricultural producer cooperatives and a total prohibition to sell or to encumber cooperative property amount to a cold shower or a stab? At issue is legislative proposal No. 2944. Considering the conditions of power in parliament there is no doubt that the legislative proposal is going to become law.

No long time period is involved; transformations are going to be suspended only until 30 November. One only wonders why parliament would prohibit the heads of agricultural organizations from privatizing until 30 November, at a time when heads of state enterprises are being urged under penalty to dismissal to prepare themselves for privatization, i.e., to make transformation plans.

In reality, the framers of the legislative proposal and its supporters in parliament are guided by a desire to protect the simple members of producer cooperatives. They are concerned that cooperative leaders may squander the cooperative property in the course of transformation without having the property appraised. After all, it seldom happens that the recorded book value of property coincides with the actual market value. Cooperative leaders need not do much more than to rely on substantially underestimated book values with or without saying so, before the poor, simple cooperative members find out that nothing is left but the process....

These sincere concerns created sincere amazement only because an existing law tied various actions involving the transformation of organizations and the attraction of capital to permits issued by supervisory committees. It appears, however, that these conditions are insufficient. Property appraisal must be provided for in detail in the framework of law, in addition to the existing stipulation, which requires a two-thirds majority decision on part of the cooperative membership and a permit to be issued by the authorities which supervise the property.

One could not quarrel with this idea, because a law like this would represent an absolute guarantee in the context of transformations. One could only wonder why this provision could not be included in the form of an amendment to the existing provisional law, instead of ordering a moratorium.

In viewing this process it appears that whenever the legislature falls behind the economic processes, it does not accelerate legislative work, but instead slows down or halts the economic processes. This is so because in the course of the first year and a half of the new system, parliament has already dealt with the issues of cooperatives and land four times. The proposed moratorium indicates the kind of results these deliberations produced!

There exist, of course, other strict legal arguments. The present law on cooperatives adopted by the party state's parliament and not yet amended by the freely elected National Assembly makes the transformation of cooperatives subject to a two-thirds majority vote cast by secret ballots by the cooperative membership. This, in itself would be no problem. But this law also required cooperatives to release the property of members who did not concur with a proposed transformation. The trouble is that under the required secret ballot one could not tell to whom to release a given share of property. Conversely, if a cooperative member disclosed his vote, one could not speak of a secret ballot.

It then logically follows that all transformations that have taken place thus far had been illegal and therefore should be annulled.

On the other hand, one could not explain why the idea of calling for a "halt" in this process had occurred to those in authority precisely at this point, at a time when the proposed new law on cooperatives would substantially simplify the transformation of cooperatives. Without having any proof one might assume that the legislative proposal ordering the suspension was addressed to the transformation of Sasad, Inc., an action that had been accompanied by the greatest of political thunder and lightning. We may be attributing too much to the person of chairman and president Laszlo Mihalik when we feel strongly tempted to believe that in a way, this law has been framed to counter him and his enterprise, and this is why we called this law "lex Mihalik." And as long as we attributed this much importance to the chairman and president, we asked him to describe the circumstances under which the cooperative was transformed into a stock corporation.

Sasad became a stock corporation in order to establish real ownership conditions, to introduce a new system of motivation, to strengthen the entrepreneurial spirit, to expand entrepreneurial ventures, to attract foreign capital and to introduce new techniques and technology, based on opportunities provided by the Constitution, the Corporate Law, the Law on Transformation, and the Cooperative Law. The fact that this matter amounts to more than an everyday transformation is indicated by

the fact that in a letter dated 20 February 1991 the Minister of Agriculture requested the people at the Sasad cooperative to postpone their transformation. A general meeting of the members unanimously rejected the minister's suggestion.

Preparations for transformation and the general meeting were conducted in the full view of the public. The American auditing firm hired to appraise the property indicated an 812-million-forint [Ft] increment in the value of property, as compared to the value shown in the cooperative's books. They distributed more than Ft5 billion worth of cooperative property among the members in the form of stock. They set aside a certain part of the property in order to establish conditions to permit persons who may vote in the negative to quit, etc.

Following the general meeting, on 12 March, they submitted the documents needed for transformation to the court of registry, requesting urgent handling of the matter. But since then (as of 12 September) the stock corporation has not been registered. One may assume that letters from the minister of agriculture dated 18 March 1991 to the Chief Prosecutor's Office in Budapest and to the court of registry played a role in this.

In any event, the Chief Prosecutor's Office reviewed every detail of the circumstances in which the transformation took place and found no flaws. The Budapest Court of Registry had also been informed of the results of the review. Nevertheless, to put it in somewhat dramatic terms, a legislative proposal suspending the transaction, rather than a registration followed.

This is so even though in the meantime Sasad made peace with everyone. Transformation had been accompanied by political thunder precisely because both the autonomous local government having jurisdiction and the Ministry of Agriculture disagreed with the endeavors at Sasad. The disagreements were based on different considerations, of course.

Since then the local governments have learned to understand that based on the local government law they were entitled to receive state property only. And the Ministry of Agriculture came to realize that the Law on Compensation also applied to Sasad, Inc., the general legal successor to the cooperative. The stock corporation had already taken steps to designate the land areas required to compensate former owners.

Returning to the above mentioned legislative proposal, the moratorium would also apply to real property owned by cooperatives. It would also interfere with transactions consummated under civil law, and it would do so retroactively, effective on 26 August 1991. Once enacted into law, the legislative proposal would also annul valid legal transactions consummated pursuant to the Civil Code of Laws.

One need not even say that after all this, foreign investors would lose faith in their Hungarian business transactions and their Hungarian partners would lose their credibility.

And the fact that this is not just a general assumption is proven by Sasad's broadly based foreign economic relations. Sasad's business partners include firms like the Metro Department Store chain, the Bauholding and the Girozentrale, but it also maintains relations with Audi, BMW, and Wienerholding, or, for example with the Australian Winton firm, the German Scholler firm, and the Arabian-British Mannai firm.

No one could argue or deny that frustrating the provisions of the Law on Transformation could result in

certain abuses. These adverse examples, however, presented themselves mainly in the framework of state enterprise transformations. In these cases certain persons acquired unjustified financial advantages or provided such advantages to others. The Sasad case, however, does not involve any salvaging of property. One should take a look at the number and denomination of the stock acquired by the various former members of the cooperative.

For this reason, based on Sasad's example, it appears as odd that due to abuses discovered in the enterprise sphere they now want to suspend the transformation provisions as those apply to producer cooperatives.

Sejm Accepts Amendments to Military Laws

92EP0037A Warsaw RZECZPOSPOLITA (ECONOMY AND LAW supplement) in Polish 30 Sep 91 pp 1, 2

[Article by Ryszard Choroszy: "Sejm Passes Package of Military Law"]

[Text] Last Saturday the Sejm passed by 235 votes for and 1 vote against amendments to laws on mandatory military service, career military service, and five other laws concerning the military. This important legislation, which had long been awaited by the military community, in many cases sanctions the already existing practices. At the same time it presages far-reaching changes in the military and defines its role in the state as well as the status of the career military.

These changes comprise altogether 394 amendments to discrete legal norms, which often alter their meaning from the ground up and adapt them in general to the new system. This is only the beginning. Additional legislation concerning, among other things, the Office of the Minister of National Defense, the military oath, and the insignia and names of the armed forces, is waiting in the wings.

Can that additional legislation be passed by the present Sejm? In the opinion of the chairman of the National Defense Committee, Deputy Jerzy Golaczynski (PKLD) [Caucus of Liberal-Democratic Congress Deputies] this possibility is precluded until aspects of national defense and national security as well as of the functioning of the armed forces are regulated in the new constitution which has not yet been adopted, and which would have to be adopted first.

Deputy Golaczynski declared during the preliminary debate, "The new constitution shall undoubtedly resolve such fundamental issues as the position, nature, and powers of the supreme branches of the government as regards national defense and national security, command of the armed forces, the general organizational structure of the military command, the importance of duties relating to national defense among civic duties, and the rights and responsibilities of military personnel.

Only a constitutional definition of the basic principles of the political, economic, and social system will permit," he stressed, "a proper formulation of civil freedoms and rights in legislation dealing with national defense, as well as a proper determination of the system of economic and financial linkages between national defense and the economy in free-market conditions."

According to Deputy Janusz Okrzesik (Caucus of Democratic Union Deputies), however, a vision of the nature of our future armed forces and of the means of achieving it is as yet lacking.

"Only the legislation concerning contract service [the volunteer army] is oriented toward the future, thus bringing us closer to a strong and modern professional military. This is the model favored by the Caucus of

Democratic Union Deputies." The discussion touched on the fate of yet another draft of amendments to legislation concerning the scope of activities of the Ministry of National Defense and the guidelines for directing and commanding the Armed Forces of the Republic of Poland. Deputy Bohdan Kopczynski (OKP) [Caucus of Citizens Committee Solidarity Deputies] took the position that, in the light of Article 42 of the Constitution of the Republic of Poland and the amended law on mandatory military service, there exist no legal or political obstacles to appointing a civilian to head that ministry. As for any speculations on this topic, they are just that—speculations.

The position taken by Deputy Janusz Onyszkiewicz (Caucus of Democratic Union Deputies) was different. He argued, "The minister of national defense should not wear a uniform. Since he takes part in meetings of the cabinet, he is above all a politician. Therefore, he cannot be an officer and as such command the army."

Under a draft law that has been rejected by members of the Sejm National Defense and Legislative Committee, the minister of national defense was to direct the armed forces with the assistance of the chief of the General Staff of the Polish Army but without the powers of command.

The discussion of the package of military legislation took place in a nearly empty room. Several deputies drew attention to this. It could have turned into the long-predicted discussion of national defense issues but it did not. Have not the rank and importance of the problem deserved this? At one point in the discussion the person presenting the Senate's position on the law transferring power transmission grids did not want to discuss that question on the grounds that it is "important and requires a fuller attendance by deputies."

Hence, an intermission was ordered. Voting on, among other things, the Senate's amendments concerning payments for medicines took place. When the time came to vote on the package of military legislation a quorum was absent. Somewhat earlier, doubts were expressed as to the definition of the farm.

"What if it is a land plot measuring more than one hectare in area, without any buildings on it? Would its owner be exempt from the draft?" asked Deputy Janina Kuz (Polish Peasant Party). The definition of the farm had to be reconciled with that present in the Civil Law Code so that town dwellers who own recreational land plots recorded as arable would be barred from eligibility for draft deferment.

In the plenary discussion on the military many more such questions and issues surfaced. Deputy Jacek Kasprzyk (PKLD) asked about sole family providers. "If my motion is not accepted," he said, "I propose that they be given priority in performing military service."

This idea was opposed by the reporting Deputy Jacek Szymanderski (OKP). Data which he received from the General Staff of the Polish Army indicate that in the

recent period (ever since sole family providers were made eligible for deferment of military service) the number of marriages contracted, as recorded by the Main Statistical Administration, was 17,000 higher than average. Thirteen thousand families "split up" as soon as the spouse reached 24 years of age and thereby became automatically draft-exempt. These arguments did not help. The deputies favored maintaining the institution of "artificial" marriage. A motion for extending until age 28 the age limit for draftees in such situations failed to pass.

Several deputies sharply rebutted the speech by B. Kopczyński. Deputy Marian Rynkiewicz (KPLD) opposed the motion to bar the professional military from partnership or stock-ownership in joint-stock companies, foundations, and other economic entities.

"In a situation when the process of ownership transformations is still continuing, that would be an excessive concern for morale. What does it mean that the career military may not own stock in companies?" he asked. "After all, the Commercial Code provides that they can participate in general meetings of stockholders and be elected to boards of governors."

This argument convinced a majority of the deputies.

Deputy Tadeusz Jemiola (KPW [Club of Military Deputies]) justified the purpose of the changes in military education, which are not cosmetic. Following the establishment of the National Defense Academy only 10 percent of the faculty of the Military Political Academy, selected from among the youngest and best-educated, were hired for it. This is required by the curriculum, which provides for, among others, a fairly substantial, 30-percent share of the humanities.

"The army does not need reforms imposed from outside," claimed Deputy Zenon Kulaga (KPW).

For the last two years far-reaching changes sanctioning the present situation have been taking place. This concerns, among other things, the issue of depoliticizing the army and shortening to 18 months the period of basic military service or to six months the period of postgraduate military retraining. The related legislation is largely based on the solutions adopted by the Western countries and on the traditions of the Second Polish Republic (1919-39).

"The career military have long since been awaiting parliamentary debate of issues of national defense and the functioning of the armed forces," Deputy Kulaga said. "It is a pity that it has not taken place."

Deputy Tadeusz Bien (nonaligned) considers the scope of the changes so far insufficient. Even so, he appealed for adopting the draft legislation in its presented version, which contained several minority proposals.

The first such proposal defined the status of the National Defense Committee in the government structures and the mode of execution of its powers, which should be

based not on some novel legal institutions that elicit many doubts among deputies but on the constitutional powers of the Council of Ministers. That proposal, too, was put to a vote. Under the adopted agreements, the National Defense Committee, which is headed by the president of the Republic of Poland and whose members are the principal cabinet ministers, accomplishes its objectives with the aid of the National Security Office.

An issue at dispute was whether workplace managers have the duty of notifying the WKU [military recruiting stations] about the permanent or temporary addresses of employees, their employment, dismissal, qualifications, and the position held. The question of persons under arrest was raised in that connection. To some deputies this looked like a violation of civil rights, but 108 deputies were of another opinion: that was in the social interest. Had this motion carried (it fell short of three votes) the military would have to expand its administrative offices or draftees would have been summoned to the WKU more often.

On the other hand, the Sejm did adopt an amendment to the law on the career military concerning the assignment of professional military personnel, with their consent, for service in organizational units outside the ministry of national defense. At present this possibility does not exist. In other words, at present such personnel at the expiration of their term of duty have to decide whether to sign up for another term or to opt for retirement status. This is now a problem to many career soldiers. The Senate may yet decide otherwise, if the Sejm consents.

In contrast, the deputies voted down a motion to abolish the requirement that persons resigning from compulsory military service vacate their billets. Let us bear in mind that graduates of officer schools must serve for a term of 12 years, graduates of ensign schools, eight years, and graduates of schools for noncommissioned officers, seven years. Another problem for persons who desire to resign from the military before that period is over is that then their severance pay is cut in half and, moreover, they have to reimburse the army for the cost of the housing, meals, and uniforms they received while attending the above schools.

But this does not apply to military-school students. That is because persons who were expelled or voluntarily resigned from military schools are not obligated to repay these expenses. There is no consistency in this matter and it threatens far-reaching consequences to the military. The present situation is such that it is better to perform basic service in an officer school, or in an ensign school, than in a unit serving in a so-called green garrison, because at such schools after one and a half years the students have the right to reconsider and decide whether they missed their calling.

There is a similar lack of consistency as regards the institution of marriage and sole family providers. The existing situation does not promote social justice and the

principle that everyone is equal in face of the right and duty to defend the fatherland. It was proposed that spouse allowances and other proper benefits be paid, along with a gradual shortening in period of service, and also along with professionalization of the army. But this proposal did not pass. Under the adopted legislation, sole family providers are exempt from the draft.

Major changes were incorporated in the law on military discipline and the responsibility of military personnel for disciplinary offenses and for violations of soldierly honor and dignity. In practice, these changes reduce to a system for a broad democratization of life in the military which is already being introduced by the educational departments of the Ministry of National Defense. It was resolved that the amendments to the seven military laws are to take effect on the day of their publication. On the day of the discussion, that is, last Friday, it was also resolved that cost-of-living adjustments for employee retirement pensions and annuities be introduced. The related proposal was passed upon being revised by a committee of deputies, in a version that is more costly to the budget than the government version. That is, it was resolved that retirement pensions and annuities would both consist of two parts: one, the same for everybody, that is, 25 percent of the average national wage, and the other, reckoned in proportion to the individual's earnings (1.5 percent of pension for each year worked plus 0.5 percent for each year in which no insurance premiums were paid). The government draft was less liberal, providing for 24, 1.3, and 0.7 percent, respectively. For this reason alone the government will have to disburse an extra 2 trillion zlotys [Z] this year and Z12 trillion next year.

Then also the minimum retirement pension as passed by the Sejm (40 percent of average wage) was 5-percent higher than that proposed by the government, and likewise the Sejm voted in favor of a higher pension for stope miners than that proposed by the government, and it also adopted the principle that the cost-of-living adjustment should be based on the anticipated rather than actual increase in the average national wage, and that the pension payments should be made in advance at the beginning of each quarterly period rather than, as the government wanted, at its end.

Calculations showed that the version passed by the deputies, as compared with the version proposed by the government, would require spending an additional Z6 trillion this year (the cost-of-living adjustment would be introduced as of 1 October of this year) and nearly 26 trillion next year. Deputy Aleksander Malachowski (Labor Solidarity) calculated that next year one-third of the state budget would have to be spent on entitlements. "In comparison, this would be beyond the possibilities of the German economy, which is spending much less on this purpose."

The legislation was passed even though earlier the deputies had voted that the budget deficit may not exceed

Z26 trillion. Thus, where can the money for the cost-of-living adjustments of retirement pensions and annuities be found, and why is it that only 55 deputies voted against this unrealistic idea and 117 others abstained?

Is such a vote an effect of the electoral campaign or a symptom of the deputies' disapproval of the economic policy of the government? The answer is both, it seems to me. Increasingly often, personal disputes arise between the left and right benches of the Sejm, as exemplified by the dispute between a former minister of labor and social policy and the deputy chairman of the Sejm Social Policy Committee concerning the shape of the law on retirement benefits.

It has been announced that the law governing retirement benefits for the uniformed services may be presented at the next session of the Sejm.

Future of Housing Privatization Viewed

92EP0026B Warsaw RZECZPOSPOLITA (ECONOMY AND LAW supplement) in Polish 21-22 Sep 91 p 2

[Article by Malgorzata Szyszlo: "Privatization of Apartments: Who May Become an Owner"]

[Text] The proposal of Minister Adam Glapinski to privatize apartments on a comprehensive basis is becoming increasingly real. As RZECZPOSPOLITA has learned unofficially at the Ministry of Land Use Management and Construction, a working variant of the draft law on putting in order certain ownership relations in residential real estate has already been developed. This draft concerns two issues:

- The transformation of the cooperative right to a dwelling into a separate property, and
- Granting ownership rights to individuals occupying apartments in buildings belonging to enterprises.

The first issue has already been brought up several times on various occasions. It is also referred to in the draft cooperative law which is being considered by the Sejm. The draft proposed by the deputies calls for, among other things, the elimination of the cooperative residents' right to the dwelling under the law. However, members of cooperatives may be able to make written statements on preserving this right. In addition, it is envisaged to establish the uniform cooperative right to the premises corresponding to the current right of ownership. A cooperative member would have this right until he repays credit obligations by virtue of the cost of building the apartment.

The proposals of the ministry, while proceeding from identical assumptions as the draft of the deputies, strive to shorten the process of ownership transformations with regard to cooperative apartments, and to switch right away to a system of separating the ownership of dwellings in the housing stock of cooperatives. As the interlocutor of the newspaper said, this would mean the

elimination of differences in the legal standing of cooperative members. Transforming the cooperative right to a dwelling into a separate property has an additional advantage in that it obviates the need to adopt a special law on mortgages with restricted rights to assets.

This is also important for the future from the standpoint of the planned introduction of the institution of mortgage loans. Therefore, credit obligations by virtue of a mortgage will be established for a dwelling which is owned by a member of the cooperative, that is, one which is part of the regular market turnover, rather than on the basis of the restricted asset right to the dwelling. Our interlocutor also added that transforming the cooperative property right to residential premises into separate ownership of the apartment will not entail any further financial encumbrances in addition to the current repayment of loans. In turn, when the cooperative right of residents to residential premises is transformed into separate properties, the principle in effect would be that the nominal value of the loan will be taken into account as the base when repaying the remitted segment of the loan.

The proposed arrangements would affect a sizable group of people. After all, there are 2.7 million cooperative apartments, out of which 43 percent are owner-occupied, and 57 percent are resident-occupied. It should be stressed, said our interlocutor, that the proposals apply only to the people who have not yet repaid the entire bank credit. The owners of the so-called paid-up owner-occupied apartments would not make any additional payments.

There are almost 1.5 million apartments owned by enterprises; out of these, only 27,000 are occupied on the basis of ownership rights. As a rule, the "owners" of enterprise apartments make official payments which cover between 20 and 30 percent of the actual cost of building maintenance. The remaining costs are met by the enterprises which, given the current financial standing of many state enterprises, exacerbates their economic difficulties. At the same time, gminas are not interested in taking over the enterprise buildings as property owners because this would entail an additional burden on their not-too-abundant budgets and the subsidization of the cost of maintaining these buildings. Numerous reports coming to the ministry suggest that, on one hand, the enterprises are interested in "getting rid" of the apartments they own whereas on the other hand, employees are interested in purchasing and owning the apartments because this protects their interests in the event of ownership transformations at the enterprises.

As our interlocutor said, the draft accommodates such wishes by proposing a statutory grant of ownership to individuals occupying enterprise apartments, with preferential conditions being used. For example, such conditions would include setting the upper limit of the sale price which would not be able to exceed either the book value of the premises (taking into account the degree of

amortization) or 20 percent of the market value of the apartment. This grant of ownership would be comprehensive; nonetheless, the ministry proposes to give some leeway to enterprises, especially with regard to apartments occupied by the employees of the production reserve.

Therefore, the proposed arrangements will not "rob" well-to-do enterprises "of their will" in implementing a personnel policy.

The specialists of the ministry maintain that financial terms for the proposed transformations would not place an excessive burden on families with medium-size incomes. It is also significant that the buyer of the dwelling will be able to freely dispose of it. At the same time, enterprises will be relieved of the duty to manage residential buildings. The residents themselves will be able to select a form of management for the buildings, and will have a direct influence on the level of maintenance costs.

Prospects for Currency Devaluation Discussed

92EP0041A Warsaw GAZETA BANKOWA in Polish
No 38, 22-28 Sep 91 pp 1, 21

[Article by Joanna Trepkowska: "Lopping Off Four Zeros"]

[Text] Inflation has, like cancer, resulted in an uncontrolled growth of the money in circulation. Our wallets and purses are pathologically swollen. One Polish zloty nowadays is worthless, and its helpmeet, the grosz, has long since dropped out of circulation. Nearly everybody has become a millionaire without feeling in the least rich. Increasingly often the need to "denominate" the currency, that is, to reduce its nominal value to its actual value, is being mentioned. In a nutshell, this concerns annulling several zeros.

The first to mention any preparations for the operation was the then Chairman of the National Bank of Poland Wladyslaw Baka a year ago. He predicted a devaluation of the zloty combined with an equivalent exchange of currency staggered over a period of time. But he did not specify the schedule for this operation, merely suggesting that it would take place once inflation decreases to a single-digit level. Several days ago we again heard about preparations for a devaluation. Unfortunately, the representatives of the central bank are not inclined to disclose the details. At most, the press spokesman for the National Bank of Poland asseverated that, once the final decisions are taken—and that shall not happen soon—no one will be a loser owing to the devaluation and exchange of currency: The operation will be conducted on the principle of complete equivalence.

Everything indicates that it will be a devaluation *a la francaise*, modeled to some extent on that the French did in 1958. Professor Zbigniew Krzyzkiewicz claims that this year the devaluation ratio may be taken at 10,000,

which means an average wage at a level of at least 180 new zlotys—1,800,000 present-day zlotys.

"I believe," the professor said, "that the existing technical realities make this operation necessary. The existence of a multiple-digit currency definitely complicates servicing cash payments and the number of zeroes is such that keeping records and statistics becomes increasingly cumbersome. This also confuses the sense of value associated with the currency, thus promoting price increases in domains where effective controls are difficult, that is, in, e.g., commerce and services. I thus believe the only question that still remains to be discussed is the timing of and approach to the devaluation. The currency exchange should be staggered over a longer period of time, as long even as several years."

This view is also shared privately by the employees of the National Bank of Poland. They too suggest that soon a 10,000-fold devaluation is to be expected. Considering the bad memories associated with operations of this kind in the past in Poland, I believe that the new chairman of the National Bank of Poland should quite soon publicly take a position on the question of devaluing the zloty. That is because history records many instances of devaluation combined with fiscal measures, that is, with partial withdrawal of currency from circulation. That is precisely what had happened in 1950 in Poland when a 100-fold devaluation of the zloty was proclaimed for only a part of the money in circulation, upon decreeing a 300-fold devaluation for the savings which had not been deposited in time in bank accounts. That fiscal measure alone caused the public to become so destitute that after awhile the prices of many staple consumer goods had to be repeatedly slashed. This makes all the more necessary a statement from the head of the central bank providing the assurance that the devaluation should not be feared because this time no one will lose thereby. As ensues from the French experience, the inadequacy of information and the attendant misinterpretation of the principles on which the old francs were to be exchanged for new ones resulted in that, by the end of 1958, the banks recorded a sudden influx of money from commercial institutions due to a marked increase in consumer spending. In this country, however, we should rather expect that the absence of complete and precise information may result in a rush to get rid of zlotys by exchanging them for dollars. It seems hardly likely that, in their uncertainty as to the equivalence, citizens of the Republic of Poland will deposit all their savings in bank accounts.

One model to be emulated by our bankers may be the central bank of Italy. Although so far a final decision on devaluing the lira has not yet been taken, as early as in 1986 an extensive study detailing the planned operation had been completed. In that study any inhabitant of the Appennine Peninsula can without difficulty find the answers to any questions relating to the future exchange. For it should be borne in mind that an even completely equivalent devaluation is always a shock to the public.

The exchange of currency accompanying the devaluation seems to be a rather expensive operation. But that only seems to be so. The bank notes currently in circulation get worn rapidly. At one time when the 100-zloty note was most often used, its average lifespan was six weeks. When the contents of our wallets are considered, that also may be supposed to be the lifespan of the 5,000-, 10,000-, and 20,000-zloty bank notes that are most often used nowadays. Hence, the machines at the Valuable Paper Factory are incessantly printing new bank notes in these denominations. A staggered exchange of currency accompanying the devaluation would thus not make this operation particularly expensive. But an overnight devaluation would be something different, as then its cost would be indeed very high.

Also important are the savings that should ensue in the future from the devaluation. For example, the cost of transmitting financial documents via telecommunications equipment would be lower and accounting and banking operations would be less time-consuming. The new zloty would regain its cachet as real money. The grosz would return to circulation. Clearings of accounts in foreign trade would be much easier following the amputation of the superfluous zeros. If we want the zloty to be a solid currency, we must improve its image abroad.

But there exists a danger relating to the proposed extent of the devaluation, a danger to which the Ministry of Finance in particular should draw attention. Namely, specific guidelines for rounding off the devalued amounts, and especially prices, should be prepared in advance. That is because otherwise it would be natural to round off fractional prices in the upward rather than in the downward direction, and this would unlock the prospects for major abuses, which must be counteracted at any price.

The experience of many countries, especially those in Latin America, and also of Yugoslavia and Vietnam, indicates that any devaluation makes sense only if inflation is really conquered. It is therefore not surprising that the National Bank of Poland, which is reluctant to discuss this topic, is waiting for a moment when we can be certain that inflation has indeed dropped to the one-digit level and nothing points to a return of the situation in the previous years.

Need for Improvement of Bank Supervision Voiced
92EP0041B Warsaw GAZETA BANKOWA in Polish
No 38, 22-28 Sep 91 p 6

[Article by Slawomir Lipinski: "This is Not the Police"]

[Text] Even long before the "Art B" affair foreign experts were explaining to their Polish partners that such institutions as bank supervision begin to be appreciated only after a financial scandal breaks out. This has been happening in a majority of the developed countries, and it looks like this rule will prove true in our country as well.

The rudiments of an institution intended to safeguard the security of the banking system, in the form of, at first, a department of the NBP [National Bank of Poland] and subsequently the General Inspectorate for Banking Supervision [GINB] (also as part of the NBP) were established concurrently with the formation of nine commercial banks, that is, early in 1989. The examiners at the Warsaw head office were appointed chiefly from among the employees of the then disbanded NBP's department of industry. It would be difficult to assume that any of them were properly prepared for this kind of work. After all, until then neither banking supervision nor a genuine banking system had existed. To this day, besides, the nature of banking supervision is little understood in this country. It is not, contrary to what many enterprises and persons believe, some kind of an office receiving complaints about the poor performance of a bank or of some bank official (and people do write such letters, which the GINB answers patiently). It is not either solely a kind of bank police, at least in the sense that it does not have the power to prosecute white-collar criminals.

That is because the principal purposes of banking supervision lie in the institutional domain—in devising safeguards for the entire banking system and monitoring the adherence of participants in the game to its rules. A corresponding paragraph of the German banking law states that the principal purpose of banking supervision is to counteract shortcomings in the performance of credit institutions that could endanger the safety of the assets entrusted to them, conflict with the proper conduct of banking transactions, or cause substantial damage to the economy in general. Foreign experts claim that training a good bank examiner in their countries takes about six years. For the last three years Polish examiners have been variously trained, and this has not been done in an integral and coordinated manner. The creation of a coherent system for training bank examiners is one of the principal objectives of the new chief of the General Inspectorate for Banking Supervision, Stanislaw Bereza, (an Englishman of Polish origin, since the fall of 1989 an adviser to Deputy Prime Minister Balcerowicz, loaned for Know-How Fund money by Barclay's Bank).

Investing in training requires knowing for certain that the personnel thus trained will make it worthwhile by being loyal to the investing institution. Yet—so far—the most promising trainees have been leaving the General Inspectorate for Banking Supervision, and the state banks in general, and flocking to the newly established private banking institutions which bribe them with higher pay. As a result, bank supervision personnel at present consist of two groups of employees: old bankers who want to spend there their last few years prior to retirement and fresh-baked university graduates. This is best exemplified by the department for licensing new banks (only recently incorporated in the GINB): It consists of five employees, of whom three are university graduates hired barely two months ago. These five are

processing 40 applications for banking licenses (as of the end of August) which must be decided upon not later than within a month (under the still binding banking law—an amendment for extending that period to three months, and in some cases even to six months, has been proposed but not yet acted upon).

It is difficult to expect in such a situation that a basic objective of bank supervision, namely admitting only trustworthy companies to the banking system, can be properly accomplished.

The GINB, or Polish banking supervision, employs about 70 persons (of whom one-half in Warsaw). This number says little. The corresponding British agency employs 300 persons, and the Austrian, only 25. The point is not even that in those countries each bank examiner is provided with a computer containing all the data and programs needed for his work, whereas in this country only a handful of computers is available for the entire GINB (the creation of a genuine LAN-network computer system is the second objective of the new GINB head). The point is not either even that every self-respecting Western bank maintains a strong internal audit department whereas there is no such department at all in some private Polish banks. What matters most is rather that in those countries bank supervision is an organic part of the system and is based not only on the employees of various departments of the central bank but also on professional outside institutions, and chiefly on reputable auditing firms. A government amendment for the draft of the new banking law, proposed at the end of August, is intended to introduce such a solution in this country too.

This does not change the fact that the Polish bank supervision agency urgently needs to hire more personnel. The size of its personnel has changed little in the last two years. But two years ago there existed only 15 or so banks, and as for supervising the nearly 1,700 cooperative credit unions, that was handled by the BGZ (Food Industry Bank), which besides employed more than 200 examiners. Nowadays the number of licensed banks other than cooperative credit unions exceeds 80 and, what is more, the BGZ has forfeited its right to audit all the cooperative credit unions. To be sure, most of these credit unions entered into an association with the BGZ and therefore the NBP chairman let that bank continue to exercise banking supervision toward them but there has remained a still large number of cooperative credit unions which broke completely with their former central banking institution and whose operations now have to be supervised by the GINB.

According to the plan, the GINB should have more than 100 employees. But acquiring several score new qualified employees may prove to be a more formidable task than computerizing the GINB or providing it with the requisite new legal powers. It is natural for individuals gifted in finance to prefer working for a private bank or as representatives of foreign companies in which they may earn as much as 10 million zlotys [Z] monthly. In

contrast, the monthly salary of the deputy chief of the GINB is Z2.7 million and that of beginning employees a little more than Z1 million. To be sure, examiners receive a special allowance (as do tellers and certain other categories of bank employees), but the highest such allowance is Z600,000 monthly.

Clearly, the rapid establishment of a genuine bank supervision system takes money, and not just for salaries, computers, and training, at that. Even if a law prescribing that the system has the right to hire the services of outside auditing companies is issued, every reputable consulting-auditing company, such as KPMG, Ernst and Young, or Price Waterhouse (with the last-named, incidentally, already employing in Warsaw twice as many experts as are working for the entire GINB) often charges for such services more than the entire budget of the GINB. Of course, one can keep demanding more funds from the budget, as the GINB has long been doing, but in this case the problem can be resolved quite readily by emulating, say, the German model: In Germany bank supervision is funded 90 percent with mandatory contributions from banks, and in addition they have to pay extra for nonroutine services (let alone the fact that the German bank supervision system also levies whopping fines).

But the heart of the matter lies in endowing the bank examiners with the requisite legal powers so that they can operate effectively. The book of rules and guidelines prescribing the work of bank examiners in the United States consists of several hundred pages of close text. In Poland, for the time being, they consist of a few articles of law and a couple of pages of internal rules. A fairly more comprehensive set of rules and guidelines can be formulated only after the new banking law is voted. The proposal for a rapid amending of the law contains several provisions of major importance to bank supervision, but in the opinion of the heads of the GINB these provisions are still insufficient. The principal shortcoming which renders difficult the disciplining effects of bank supervision is thought to be the absence of so-called indirect sanctions. Of course, a bank examiner may recommend replacing the management of a bank or revoking its license, but that is the ultimate penalty, which is resorted to only reluctantly. In countries with a developed banking system the bank supervision agency has at its disposal a broad spectrum of sanctions, principally fines. Once again we have to point to the German system described below, on adding that, as our examiners have been advised by their American colleague, in Germany the bank employee responsible for providing the bank supervision system with the information it demands is personally liable to a fine of US\$1,000 for each day he is tardy in providing that information. In Poland so far the GINB has caused one bank to submit a program for sanctions, another to be drafting such a program, and a third to replace its board of governors—this concerns private banks, whose names the examiners cannot divulge, of course. These three specific results of the operation of the Polish bank supervision system in the

nearly three years of its existence are definitely little. This does not mean that the GINB has not uncovered any other banking irregularities. It has uncovered many, and drawn the attention of the banks to them in writing. No one will say it plainly, but it can be guessed that this is relatively ineffective in the absence of sanctions. No bank would, of course, openly ignore the recommendations of the bank supervision system, but many banks tend to stretch out implementing them over time by referring to various difficulties.

Thus, we are only beginning to build an effective bank supervision. Yet it is precisely this part of the banking system that needs the most support. Not just because of the "Art B" affair, although that would be a good reason for prompting the powers that be to become more interested in promoting the development of effective bank supervision. The importance of a properly operating bank supervision agency in Poland is invaluable, if only because the development of our banking system is still chaotic, and what is more we have not yet developed any institution guaranteeing the safety of deposits in nonstate banks (in state banks the guarantor is the state budget, which, in the context of the ongoing privatization of these banks, is not the most felicitous solution). Thus there is no protection for the customers of these banks, other than faith in an efficient performance of the bank supervision agency. But these customers should cherish no illusions, considering that it will take a long time yet before the GINB becomes capable of eliminating the risks they take. Even if the GINB becomes strengthened fairly rapidly, no one can guarantee that the entire banking system is safe and that no more financial scandals will arise, if only because there is has to be a certain limit to the safeguards that can be provided. That would threaten the paralysis of the entire banking system. Reconciling the liberalism and independence of financial institutions and their proneness to take risks with the legal system of government safeguards and precautionary regulations is nowhere easy, let alone in this country.

Development of Small Manufacturing Detailed

92EP0018A Warsaw RZECZPOSPOLITA (ECONOMY AND LAW supplement) in Polish 18 Sep 91 p IV

[Article by Kazimierz Klosinski: "Unused Potential"]

[Text] The business profile of small manufacturing plants, frequently assisted by gmina authorities, is usually determined by at least one of three factors, namely: the supply on local markets, utilization of local raw material, and development of local manpower reserves.

Examples of typical production tied to the supply of the local market are: soda water production plants bakeries, butcher shops, delicatessens, etc. Based on the methods and scale of production, small manufacturing plants are, as a rule, geared toward making use of local raw materials which includes raw materials dispersed in relatively small "deposits" and subject to small-scale processing

because of technical-economic-ecological reasons. These are primarily minerals and raw material of agricultural-breeding farm origin.

Minerals of all kinds and in various amounts occur in almost the entire country. They are: raw material used in ceramics of the construction industry (clay and silt). The following belong to precious loamy raw materials: porcelain clay, which in Poland occurs in Lower Silesia and is associated with granite and gneiss massifs, occurring mainly in the massifs of Strzegom, Sobotki, and Strzelin as well as in the area of the Boleslawska basin. Documented supplies in four deposits come to 217 million tons of porcelain clay (projected supplies are estimated at 1,600 million tons).

Clay suitable for the production of brick and other construction material including white baking clay and incombustible clay occurs in very many areas of Poland. Known recoverable reserves of clay come to 58 million tons.

Bentonite and bentonite clay constitute a valuable raw material characterized by a high degree of plasticity. They were discovered in the northern part of the Upper Silesian Coal Basin. Dye clay also occurs in Poland, but in smaller amounts, in the Swietokrzyskie Mountain region. The extensive deposits of miocene clay in the Przedkarpacie Depression as well as even more extensive pliocene clay deposits which stretch from one end to the other of central Poland are particularly promising.

Considering that there is a large demand for ceramic goods and particularly building ceramics products whereas the working of these raw materials conforms to the technical conditions of small plants, it ought to be stated that the development potential of this production in small manufacturing plants is great in economically poorly developed regions as well.

Natural aggregate has considerable deposits in the form of gravel, mine run and sand in moraine formations occurring in northern and central Poland as well as in the southern part of the country in river valleys. Documented deposits of natural aggregate also exist on the Baltic shelf in the area of Slupsk. Recoverable reserves of natural aggregate have been documented in the amount of 4.54 billion tons. Prospective supplies are estimated at 4.3 billion tons. Natural aggregate has wide application in many processing industries and particularly in the construction industry, the building material industry and road construction whereas it is the small manufacturing plants that handle their quarrying.

Peat—a power generating raw material that is exploited to an inadequate degree. Poland has approximately 1.5 million hectares of peat bogs whose resources are estimated at 18 million cubic meters of raw peat. The annual output of peat in Poland comes to less than 100,000 tons. The development of industrial methods of extracting and treating peat along with its briquetting for fuel

purposes (particularly in rural areas) will make it possible to alleviate in many regions the deepening deficit of hard coal.

In treating energy problems more broadly, i.e., without reducing them to the use of peat, it ought to be said that it is in small energy generating units that Denis Hayes, author of "Glimmer of Hope," sees the future. It ought to be said that his concept is very close to Polish reality. He states: "The application of technology associated with small-scale production that is in addition decentralized and safe also makes sense from a 'systemic' management point of view. Small units can be added on gradually to already existing ones according to the increase in demand and placed in operation within several weeks or months. If the giant power plants were to be replaced by thousands of small units arranged so that each one would be located as close as possible to its consumers, then the so-called scale advantages associated with the large plant dimensions would lose in significance by comparison with the advantages of mass production."

Another, very important group of local raw material in Poland are agricultural-breeding farm raw materials. These include, above all, plants of economic importance such as sugar beets, malt barley, hops, tobacco, rape, oil yielding rape, flax, and hemp. In small production, reeds and wicker are of importance whereas leather and wool constitute important raw materials in the area of breeding farm products. This group also includes raw materials that undergo only simple processing: wheat, meat, fish, as well as raw materials that are only partially processed in industry since most of it is intended for direct consumption. This includes potatoes, fruit, vegetables, and agricultural products such as milk, poultry, and eggs. Some of these are subject to heavy processing as, for example, potatoes for starch and alcohol.

From the point of view of small manufacturing and small plants, the following are of importance: edible fats production, potato and starch production, food concentrates, meat, fish, alcohol, confectionery products, fruit-vegetable production, as well as mills, bakeries, soft drink production and bottling plants, vinegar and mustard production plants—areas in which small plants dominate.

Due to the general nature and degree of potato harvesting, the enormous possibilities are interesting—within the context of small manufacturing—of developing various ways of processing them as created by the continually unquenched demand on the internal market, the envisaged demand for semiprocessed food products as well as the possibility of exports primarily to capitalist markets. Particularly extensive export possibilities involve modified starch products that have an application in various branches of industry as well as dried and fried food products. Because of this, it would be desirable to increase several fold the processing production

output of these products. Currently, only approximately 150,000 tons of tubers are processed into food products in Poland.

A lot of disproportion has accumulated in the development of the food industry in Poland thus far. These include: underinvesting of purchasing center networks, underinvesting in the area of the processing potential as opposed to the supply of agricultural raw material, inadequate amount of warehouses and storage for raw material and finished products, disadvantageous placement of processing plants in relation to raw material bases and situating the building and expansion of the food industry in large towns and cities while at the same time neglecting agricultural regions.

The elimination of the presented disproportions requires economic policy aimed at creating and promoting the food industry, and opting for the construction of small and medium-sized processing plants situated in close proximity to the raw material base.

Secondary raw materials also present possibilities for the development of small manufacturing based on local raw material resources. This group includes: production waste created during various production processes such as excavation, manufacturing, and processing, also including technological waste products, as well as accompanying minerals extracted during mining processes. Interest in the development of small manufacturing plants based on secondary raw materials follows from three premises: the necessity to protect resources and to reduce processing expenses, the possibility of economizing on materials that are in short supply and their substitutes, and protecting the natural environment. It is understandable that small manufacturing plants based on secondary raw materials expand operations near suppliers of waste or scrap products, i.e., as a rule, near large industrial plants.

Finally, it ought to be stressed that domestic and international small capital—small manufacturing—encounters unfavorable conditions in Poland, particularly in terms of infrastructure. In order for economic development to occur, a water-sewer, power, transportation, post-telecommunications, computer, and, above all, bank infrastructure must be created in advance.

More on August Economic Indicators

92EP0026A Warsaw *RZECZPOSPOLITA (ECONOMY AND LAW supplement)* in Polish 21-22 Sep 91 p 2

[Article by Ada Kostrz-Kostecka: "Once Again About August: No Movement of Prices and Production"]

[Text] In August the industrial output remained at a level approximating that in June and July (in terms of the actual work time). However, this means that in the first eight months of this year, the cost of product sales was 11.1 percent lower than in the corresponding period of last year. Therefore, expectations that the output would grow in the second month of vacations, as has

been the case in other years, and which is a seasonal phenomenon (the people begin to return from leave), did not come true. This is what Krzysztof Lutostanski, deputy chairman of the GUS [Main Office of Statistics], said on 20 September at a press conference.

Predictions made at the previous GUS press conference concerning the stabilization of wages did come true. The average wages in the six sectors of the economy combined with bonuses from profits were 0.3 percent lower in August than in July. Without the bonuses, the wages were higher by the same margin (the data apply to the state and private sectors, except very small units employing under five people). In the private sector alone, the average wages in August increased by 3.8 percent. In real terms, the average wage in the six sectors was 0.9 percent smaller than in July.

In August, the ranks of the unemployed grew by 104,000 persons, or 5.9 percent. As of the end of last month, 1,854,000 persons were registered at labor bureaus, or 9.8 percent of the entire group of the gainfully employed. This increment was markedly smaller than in the previous month. However, there were considerably more—8.9 percent more people who lost their jobs as a result of mass layoffs. In the immediate future, 4,200 enterprises intend to lay off 239,000 employees. In particular, these are enterprises in Warsaw, Rzeszow, Gdansk, and Kalisz Voivodships.

Women accounted for 62.4 percent of the unemployed. From among those registered, one person in five did not have a right to receive benefits, as was the case in July.

The expectedly deteriorating import performance and the unexpectedly worse results in exports are the next phenomenon which statisticians note. As Deputy Chairman Lutostanski stated, we should postpone evaluating the causes of this phenomenon until we have the September results. As of now, the only explanation is the fact that, after the revision of customs tariffs, those companies which engaged in trade in both directions, but made more money through imports have given up both imports and exports.

Concerning the state budget, the growth of the deficit by another 4.7 trillion zlotys [Z] was registered. In eight months, the deficit came to Z20.1 trillion. This was due primarily to higher budgetary expenditures because proceeds were higher than a month ago.

The financial standing of enterprises is deteriorating. At the end of May, enterprises registered a total net loss of Z1.6 trillion. One month later, the loss gave way to a profit, albeit small—Z800 billion. By the end of July (the GUS has only such data for now) it changed to a loss again. Therefore, the temporary positive balance was due to the write-off of more than Z1.6 trillion in favor of enterprises by virtue of the tax on above-the-plan growth of remunerations which were no longer due to the budget because of changes in the guidelines.

Enterprises which had not settled on their obligations to the budget for more than half a year employed 5.9 percent of all employees and produced 3 percent of the entire product sold in industry. The enterprises which were three months in arrears employed 13.2 percent of the people and manufactured 8.3 percent of all products.

The poor financial situation poses the greatest danger for enterprises in the following industries: the textile industry, the transportation vehicle industry, the electronic industry, and the electrotechnical industry. If we look at individual voivodships, it turns out that the financial status of enterprises was the worst in Rzeszow, Walbrzych, and Lodz Voivodships.

Prices for the output of construction and assembly were on the average 1.6 percent higher than in July. Prices for consumer goods and services increased by 0.6 percent compared to July. This was due primarily to a seasonal decline of prices compared to July for fresh vegetables (by 39.8 percent), potatoes (by 28.1 percent), fruits and processed fruits (by 17.5 percent). Giblets, hens and chickens, and veal became 2 to 3 percent cheaper. Among other things, edible fats, sugar, fish, macaroni and milled products became more expensive. Prices for certain groups of foodstuffs increased in the last days of August. When asked about predictions concerning the development of the situation in the economy, Chairman Lutostanski stated that in the months to come, the trends now being registered in the economy will not change, unless decisions are made which change conditions for operations.

According to new crop estimates, this year there will be 13 percent less potatoes and 25 percent less beets. There will be more or less as much grain as last year, and more fruits.

Statistics for 1990 Production Presented

92EP0026D Warsaw GAZETA BANKOWA in Polish
No 37, 15-21 Sep 91 pp 1, 20

[Article by Alicja Kolodko: "Secrets of Overproduction"]

[Text] Last year abounded in abrupt changes, shocking situations, and new, previously unknown phenomena. The produce and foodstuffs market also underwent such changes. Foodstuffs filled storage facilities almost overnight, and farmers discovered that, to their surprise, it was not easy to sell what they had produced. The consumers received the abundance of produce with great satisfaction, but its prices without any satisfaction at all.

Prices created a demand barrier, and, in common opinion, became the main explanation for the phenomenon of food surplus. If this explanation were the only correct one it would mean that last year we ate less than in previous years, whereas this is not all that obvious.

A Good Year

The year 1990 was a particularly good year for agriculture, the second one in a row. The weather cooperated, and the harvest was good. The grain crop was record-setting—28 million tons, whereas the year before, 27 million tons were harvested. The average for the years 1984 through 1988 came to under 25 million tons. The potato crop was plentiful, despite the fact that the yield was not different from the averages for previous year—36.3 million tons. More beets were also grown—16.7 million tons, whereas in previous years the farmers harvested less than 15 million. The harvest of other crops was not too different from the averages of the 1980's.

A good harvest of crops made it possible to boost animal husbandry, especially hog breeding, for which the profit margin remained very high through the entire year, in view of the low prices for potatoes. The peak was achieved in December when the ratio of a kilogram of hogs to a kilogram of a fodder diet came to 1:20. In terms of meat (including fat and pluck), agriculture produced 3.3 million tons of meat, or 10 percent more than it usually did in previous years. In turn, the output of milk declined by 3 percent compared to the previous year, but only by 1.5 percent compared to the averages from earlier in the 1980's. The regular slaughtering of cows which occurs throughout the year did not cause as high a reduction of the herd as was expected. The catch of fresh-water fish was also considerably better than before—48,900 tons. It increased by 12 percent compared to the averages between 1984 and 1988.

Therefore, all kinds of goods were abundant on the farms. However, this abundance was not extended quickly to sales outlets. For this reason, the supply of food was considerably lower for all varieties compared to the previous year. Processors and traders restricted themselves to minimum purchases, especially in the initial months of the year, selling primarily what they had accumulated in storage in late 1989. The status of reserves at the end of 1989 and 1990 testifies to this. Consumers also used up what they had previously hoarded in their granaries (what other possible explanation is there for a dramatic decline in the demand for cereals, sugar, and flour during this period?).

At the time, the system of interregional relations and wholesale trade collapsed entirely. In extreme cases, which at the time were quite numerous, it so happened that farmers did not have a way to get rid of their porkers if they did not slaughter them themselves and bring them to the city for sale. Despite the fact that farmers were screaming about full pigsties, the meat stores did not reflect this surplus. Little has changed since.

Despite common beliefs, there were no significant imports of produce and foodstuffs. The import of foodstuffs came to 64 percent and those of farm products to less than 35 percent of 1989 imports.

Our Menu

A decline in the consumption of consumer goods per inhabitant affected all types of foodstuffs. In no case was this decline smaller than 2 to 3 percent, with the exception of sugar, the consumption of which dropped from almost 47 kilograms in 1989 to 43 kilograms last year. It was higher than the averages for the 1980's anyway. This proves only our foresight in the fall of 1989 rather than a decline in consumption.

Our last year's menu looks somewhat different if we compared it to the year 1980. At the time, we ate considerably more baked goods and other grain products. We ate 8 percent (10 kilograms) fewer potatoes. Taking into account their exceptionally low price (they were even handed out free of charge by farmers) we may assume that we ate as much of them as we wanted to. In turn, less fruit ended up on our tables, but more vegetables. We ate an equal amount of fat, but 6.3 kilograms less meat. This is what GUS [Main Office of Statistics] data say. We also know from our own observations that even if we ate less meat in terms of statistics, it was of a better quality. We did not "grab" just any beef with a bone, and even if we did it had to be well-raised and fresh. We ate considerably less poultry and fewer eggs compared to the year 1980. We remember that at the time, chickens and eggs from private farms were a great help in our household kitchens. Since last year, eggs were not among the most expensive products, so we may assume that we ate as many of them as we saw fit, thus emulating other European peoples.

At any rate, even if we accept that a decline in the consumption of foodstuffs occurred last year, it was not drastic enough to explain unambiguously the emergence of a surplus and the difficulties of farmers selling their foodstuffs which would compel protests on the scale we have witnessed.

An Attempt at Explanation

If we take a closer look at everything that happened in the market for agricultural products and foodstuffs last year, we may learn that no single, clear-cut reason can be found for which our farmers were deprived of the privilege of being "the sole providers for the people," and all the requisite facilities to which they have managed to get accustomed. Several factors contributed to this.

First, this was a good year for agriculture which, in combination with the high prices for food which were particularly acute in the initial period of this stabilization program, caused both the processing industry and the consumers to refrain from purchases beyond those necessary to meet current needs.

Second, we ate less, after all. In the process, we were extremely picky, due to which only fresh and good-looking produce was purchased. The quality of food has undoubtedly improved. The imported foodstuffs, which made our producers understand that not everything they produced would be sold, even if it is somewhat cheaper, were also a factor.

Third, due to the disintegration of monopolistic structures operating in procurement and trade, many goods which could be sold did not get to where consumers could buy them on occasion. It is not true that meat, bread, and milk could be purchased anywhere and at any time. Disruptions in the flow of goods were an important factor in the decline of the supply of domestic foodstuffs. This was much less of a factor with regard to imported foodstuffs which, as a rule, had a longer shelf life.

Finally, fourth, we do not appreciate the scale of reductions in the production waste. Nobody, neither the producers nor consumers of foodstuffs, was interested in using them thriftily when the foodstuffs were cheap and agricultural products were subsidized. When milk and cereals cost less at the store than what they were procured for, farmers use them to feed hogs. This was not a common practice, but was significant. MPO [Municipal Sanitation Enterprise] employees found entire loaves of bread on garbage dumps. Processing enterprises bought raw materials for processing when they were available and also built up stocks. Meanwhile, a considerable quantity of raw materials was devoured by microorganisms and pests, but subsidies were allocated anyway. We did not buy cottage cheese by tens of grams but rather by kilograms. Some of it, on occasion a lot of it, ended up on the refuse dump several days later.

At present, we spend a considerably greater proportion of our earnings for food than used to be the case at one time. However, we value and eat the food. As recently as the 1970's, it was estimated that about 20 percent of products disappear between the field and the table (or rather the stomach). How much disappeared last year? It is hard to say unequivocally but considerable savings have been made.

A precise estimate of the current magnitude of losses may not be all that important, in particular for farmers who are interested first of all in the opportunity for sales and in prices. However, from the point of view of our future, it is essential to be aware of the fact that food surpluses are only short term. That there was more food than we managed to consume last year (the same will be the case this year but on a smaller scale) does not mean that the issues of feeding the people have been resolved. They will come back in the years to come again and again. For now, the consumers have gotten the upper hand. Perhaps, the sun will shine not only for the good harvest, but also for the farmers.

Difficult Situation in Rural Areas Noted

92EP0026C Warsaw RZECZPOSPOLITA
(ECONOMY AND LAW supplement) in Polish
21-22 Sep 91 p 1

[Article by Edmund Szott: "How To Stimulate Agriculture? By Band-Aid or by Incentives?"]

[Text] The Sejm Commission for Agriculture and the Food Industries, which reviewed the actions of the government in the matter of adjustments in farm policy, found these actions to be unsatisfactory and proposed

that the Sejm not accept a report on the position of the government with regard to the implementation of the resolution dated 24 August. Let us recall what this concerned. This resolution bound the government to:

- Revise its credit policy with regard to agriculture and the food industries.
- Submit a concept of managing agricultural real estate which belongs to the State Treasury.
- Report on actions aimed at promoting the export of farm products.
- Report on financial consequences of introducing minimum guaranteed prices in the procurement of milk, slaughter cattle, and table grains.

The deputies from the Sejm Commission on Agriculture and the Food Industries were satisfied with the response of the government only to the question of managing agricultural real estate owned by the State Treasury. The rest of the responses were found to be "brief and incomplete."

It is, as the deputies themselves put it, "the brigand's right" of deputies to disagree with the policy of the government. At times, it is their sacred responsibility. There are indeed grounds for criticizing the actions of the government in the sphere of agriculture. For example, to my mind, objections to the current guidelines for the provision of credit to the foodstuffs sphere are justified. Incidentally, these guidelines have a boomerang effect on fertilizer factories and agricultural machinery plants. The protest against boundless imports of foodstuffs from abroad was likewise substantiated. However, on the issue of introducing minimum guaranteed prices the demands of the deputies on the Sejm Commission for Agriculture and the Food Industries, which were actually similar to those of the public and professional organizations of farmers, give rise to major doubts. After all, the vegetable gardening sector, which has never sought such prices, is at present the best segment of Polish agriculture! This is so precisely because in this case, prices have not been set by officials but rather are governed by the law of supply and demand. Due to this, specialization in production and the positive selection of producers came about. There is no need to impose progress in this area, to encourage them to establish educational contacts with foreigners, and so on. The objective is to bring about similar processes in all of Polish agriculture. This will certainly not happen if the intervention of the state is too extensive.

The import of foodstuffs from abroad, which until recently was unrestricted, is now running into an effective customs barrier (in the opinion of a considerable

segment of our society, this barrier is even too high). However, as far as promoting the export of Polish agricultural products is concerned, I will allow myself an altogether different opinion. To my mind, such promotion is even... too vigorous—not in general but under these specific circumstances, i.e., the current level of agricultural production which is fraught with... a shortage of foodstuffs rather than their overabundance in the near future.

This is not hard to prove. The grain harvest is smaller by about 1 million tons. Grain imports will be smaller (by almost 3 million tons). The potato harvest will be considerably smaller (by about 5 million tons). The output of sugar is expected to be 600,000 tons lower. The herd of cattle has dropped to the lowest level since the war. The size of the herd at present is such that the resources of manure at the disposal of agriculture pose a threat of soil degradation.

The surplus of food in Poland is, first, illusory (the poorest strata do not receive sufficient nutrition), and second, temporary. The demand to promote the exports of farm products is quite a risky game under the circumstances. However, this is my personal opinion, the correctness of which we may be able to verify shortly.

In summary: The situation in which agriculture, farmers, and rural areas in general find themselves is difficult, and even very difficult. The consequences of this may turn out to be painful for our entire society. However, the path toward improvement does not lead through extensive intervention but rather through releasing initiative and enterprise. It is another matter that it is hard to encourage someone who "has one foot in his grave" to be active.

Farming Machinery Industry Facing Bankruptcy

92EP0018C Warsaw *RZECZPOSPOLITA*
(*ECONOMY AND LAW* supplement) in Polish
18 Sep 91 p IV

[Article by Antoni Kowalik: "Client to the Rescue"]

[Text] The growing drop in the sale of farming equipment and machinery has caused the majority of industries involved in this type of production to find themselves on the verge of bankruptcy. Many plants are currently threatened with closures.

For example, the sale of tractors—as follows from the analysis conducted by the Ministry of Industry and Trade—declined 14.5 percent during the first six months of this year in comparison with the same period last year. However, in comparison with 1989, the drop came to approximately 40 percent.

The production and sale of the basic assortment of farming machinery and equipment for the six-month

period of this year as compared with the same period last year is as follows:

Specifics	Production		Sales		%/91/90
	1990	1991	1990	1991	5/4
1	2	3	4	5	6
Plows in general	12,424	8,713	10,127	6,365	62.9
Cultivating assemblies	961	305	926	265	28.6
Manure spreaders	5,051	3,343	4,481	2,887	64.4
Grain seeders	7,148	1,370	4,942	2,393	48.4
Reaper-harvesters	2,800	310	2,847	392	13.7
Sheaf-binders	3,388	890	2,716	514	18.9
Potato harvesters	4,183	856	4,030	1,070	26.5
Potato lifters	1,970	233	2,068	519	25.1
Beet harvester	1,027	42	1,055	20	2.0
Rotating mowers	11,181	13,196	11,031	10,850	98.3
Steamers	28,722	46,079	25,737	44,756	173.8
Field spraying machines	2,327	2,198	2,097	1,678	80.0
Milking machines	5,444	518	2,446	1,045	42.7

It follows from the analysis that a progressive drop in the sale of this equipment is taking place in the respective months as well. When, for example, from January to May of this year, the average monthly sales of sheaf-binders came to 97 units, in June only 28 of them had been sold. Relative to reaper-harvesters, these amounts came to 67 and 58 units respectively; in relation to spraying equipment—326 and 45 units in June; milking machines—198 and 52, and beet harvesters—four and zero units.

Farming machinery and equipment is manufactured by approximately 160 state, cooperative, and private enterprises. Together, they produce approximately 600 varieties of this equipment. However, basic equipment is manufactured by 23 "Agromet" enterprises. Nearly all of these firms are operating at a loss currently due to the collapse in sales. On the whole, with sales in this sector valued at 981 billion zlotys [Z] during the first six months, the amount of losses is calculated at Z329.9 billion.

This denotes a diametrically different situation in this industry than had still existed, for example, in 1989. At that time, the production of farming machinery and equipment met from 70 percent to 80 percent of the need. Producers were used to lines of farmers in front of factory gates ready to buy every machine rolling off the assembly line. Public lists were created, commissions were appointed to handle the distribution of available stock, etc. Currently, no preferential treatment, discounts or sales incentives are working. There are simply no clients.

The reason is simple—the rural community does not have money. The sudden collapse of sales in the industry

producing equipment for farming needs was caused by a change in January of last year in the principles of granting credit. Instead of buying equipment, farmers rushed to pay off their loans. This collapse continues to this day. The threat of closure hangs over the farming equipment industry.

If in the very near future this threat does not reverse itself, it is very possible that there will be nothing on the market or at the manufactures'. It appears, however, that this fact is not accepted as reality in many enterprises shocked by the current situation. It is, indeed, difficult to get used to the thought that a producer of such needed and until recently sought after equipment could cease to exist.

The conviction about the inconceivability of bankruptcy is also supported by calculations regarding the demand for farming equipment and machinery. It follows from them that, for example, only to maintain the current state of reaper-harvester supplies of which there are currently 73,200, their annual production should come to 9,000. Meanwhile, during all of last year, 4,580 of them were sold. In order to replace 200,000 currently utilized sheaf-binders after 10 years of use, their annual production should come to 20,000 units. Last year's sales came to 3,800. Moreover, the minimum annual production needs, only for purposes of maintaining the current state of supplies of this equipment, are as follows: 51,100 units of manure spreaders, 35,000 units of grain seeders, 7,300 potato harvesters, 96,000 tractor plows, and 2,600 beet harvesters.

The needs that are present constitute only one of the arguments against the reduction of enterprises manufacturing farming equipment and machinery. The second,

no less convincing argument, are prices. Thus, a comparison of domestic prices and those applied in Europe on basic varieties of farming equipment:

Product	Poland \$U.S. [converted]	Europe \$U.S.
Reaper-harvester	20,000	50,000
Grain seeder	950	8,200
Manure spreader	1,695	7,100
Potato harvester	5,189	17,500
Rotating mowers	1,050	4,500

Specialists claim, furthermore, that a part of our domestic equipment does not sway from the average European standard. In any case, the issue of the quality of this machinery does not constitute a problem currently. A manufacturer, liberated from the central distribution of material, foreign exchange restrictions, etc., can quickly adapt to market requirements. Everything depends on demand which is lacking and there are no

indications that in the near future the farming machinery manufacturing industry will have anything to do with something of the sort.

Meanwhile, competitors are increasing for manufacturers of this line. A lot of production manpower has been laid off, e.g., in the armaments industry. Those who adapt themselves more quickly to current conditions and who find clients will survive on the market. It is questionable, however, that the kind of demand for farming equipment and machinery could return in the next few years that is represented by calculations of the needs of this sector of the economy. Prices on this equipment as well as agriculture's financial situation must also change the attitudes of farmers as soon as possible toward farming methods.

All of this means that for many manufacturers of farming machinery the outlook for the future is not good. Because of this, immediate assistance demanded by these enterprises in the form of, for example, the relaxing of financial rigors, thus, the granting of tax relief will not change the situation. Only sales can save the day.

Repressive Serbian Policy Attacked

92BA0013D Belgrade REPUBLIKA in Serbo-Croatian
16-30 Sep 91 p 5

[Article by Zagorka Golubovic: "The Government Is Speaking a Language of Repression: Where Is Serbian Policy Going?"—first paragraph is REPUBLIKA introduction]

[Text] The Serbian government, with its recent decisions, is throwing an insolent provocation into the face of all citizens of the republic.

Despite the fact that a unique revolution is taking place in all of Eastern Europe—and of late in the Soviet Union as well—shaking the world in a short period of time with the kind of changes that took decades, and even centuries to occur in earlier history, all of which shows that "real socialism" is finally done for, the rulers are behaving in Serbia as if all of this does not concern them at all and as if they believe that Serbia can remain apart from the history that is happening to us.

Serbian rulers are displaying improbable self-confidence and arrogance in this regard, defying their people and waiting for them in order to test whether they can dare to bring about the destruction of such self-preservation through massive civil disobedience. It seems that those who rule Serbia believe that only under their director's baton can the "people happen." The last several acts in Serbian policy show that the Serbian rulers are indeed playing with our patience, conforming with Njegov's words: "The wolf has his right with the sheep, like the tyrant with the weak man." But before we occupy ourselves with the question of how much such a perception of the (weak) Serbian people can be justified, let's concern ourselves with the provocations that have been thrown in our faces with the recent decisions of the Serbian government.

Three acts that will be dealt with here can be viewed as elements of an integral system of repression, which is becoming increasingly emphatic and bold. The violation of the Serbian Constitution with the new Law on Internal Affairs has already been discussed in this publication (1-31 August, pp 8-9). In the analysis of this law it was shown that some aspects of the old repressive system are legalized: the isolation of questionable individuals, "exile" at one's residence, violation of privacy in letters and other means of communications, which has as its aim the increase in insecurity of citizens, counting on fear as a psychic reaction which reduces the opportunity for a realistic assessment of a situation and extinguishes resistance through force. This act confirms that Serbian policy is not moving forward, but backward, believing that the government has consolidated itself sufficiently and can begin to speak openly, instead of the previous mimicry, a language that it alone knows—and that is the language of repression.

The second provocation that is occurring as if 9 March, never happened in Serbia, and as if they have forgotten

the tragic consequences of a hard repressive policy, is represented by the latest personnel changes in Radio/Television. There were those of us who warned at the time of pressure for the replacement of Mitevic and company that such simple pressure would not bring about lasting results, since after the company mentioned, still worse ones could be put in place, and this has been confirmed today. Although the appointments after the replacement of Mitevic, on which worse ones were forced by the Teraziska "revolution" were not the correct solution either, and primarily because the institution of competition was bypassed and because of the fact that the criterion of experience, primarily, was not taken into account, it was shown that this was only a transitional and temporary measure "until minds calmed down." But the Serbian government waited for "its moment" and it seems that the government has figured that the moment has now come, helped out by the original events in the USSR on 19 August, when the putschists announced the possibility of returning to the old regime (because, didn't only the Serbian government support the putsch in a way—by not announcing a protest?). It seems that the Serbian leadership considers that it has once more, with its war policy, consolidated its positions, which were significantly undermined after 9 March, again having raised the banner of a "united Serbianism" more skillfully than the opposition, playing the card of inflamed national passions and the Serbs' determination to win "the victors' struggles" again. And despite the storm that took place in the Soviet Union in which the message was clearly written that the pretenders of the hard fist "shall not pass," the tailors of Serbian policy insist on having their way, remaining increasingly isolated in a changed world (although they are not the only ones in love with the totalitarian system on our Yugoslav territories).

The audacity to attempt once again to place the informational system under (party/political) surveillance through the main mass media—radio and television—as was announced with the placement in high positions of proven party followers and experts in "specialized war," is indeed an arrogant provocation which, it seems, does not take into account the fact that it can cause a storm here too. As if there had not been enough censorship up to now, which has reduced television news to war-mongering propaganda, even this has been little for the Serbian leadership, which hopes to establish total control and extinguish every area of free communication and publicity. I ask myself whether their calculation is correct and whether the foolish idea about the victory of Serbianism through the mass destruction of the Serbian people in this senseless war has seized all of us, or have we succumbed to apathy?

And the third act that indicates that Serbian policy does not even know of any other methods than repressive ones is the announcement of the radical implementation of measures in the sphere of education in Kosovo, according to which 130,000 students of Albanian nationality will not be advanced to the next grade and 6,000

Albanian teachers will be dismissed. The Province Secretariat for Education has cynically commented on this decision in the following manner: Children who will lose a grade because they did not study according to the valid (and imposed) program are not the real guilty parties, thus the teachers have to be punished, since they, following the orders of the Albanian alternative, have forced the children to study according to incomprehensible programs, and new teachers will be sought through a competitive process who will be prepared to "integrate into this state"; however, if no one applies for the competition, schools in the Albanian language will be closed. Instead of discussing with the Albanians how a step can be made toward agreement on a program, the language of an ultimatum was used, the consequence of which will be the end of cultural and not just political autonomy.

Has anyone among the Serbian leaders asked himself if this is not dynamite that will set off a hidden rebellion in Kosovo and do we need a new battleground on Serbian soil? Can such a hard policy of unilateral decision-making continue without an attempt at agreement and consensus with the Albanian population? Is it not logical that an educational program that is imposed through repression must be experienced as pressure for assimilation, which is euphemistically called "integration"?

All this shows that the Serbian rulers are sorry that relative peace is still prevailing in Serbia, that the battlefield is on "someone else's" territory, that the people are probably refraining from social unrest due to patriotic reasons.

But what is enabling the Serbian leaders to act so self-confidently and arrogantly and why such a catastrophic policy has not met with stronger opposition (isn't it, probably, because of annual vacations?) must be discussed.

We the people, especially intellectuals, cannot escape responsibility so easily for a civil war that is already in progress on Yugoslav soil and that has been sponsored in large measure by Serbian policy; for the creation of a climate of such physical insecurity which is now the worst in Europe, even probably excepting Albania; for such a catastrophic decline and impoverishment of the country that promises to threaten the existence of the whole population.

Despite sporadic opposition and, as Borislav Mihajlovic-Mihiz put it at a protest meeting, "moral slaps" at the government, despite the surprising flash of student resistance in March, we have been too patient. A "silent majority" characterizes our social situation today. Thus we must ask ourselves the question: Haven't we ourselves, through our inaction, become participants in such a Serbian policy, and won't we be equally guilty if we do not undertake more radical steps today in order to prevent repression from becoming a way of life for us?

I think that it is necessary to coordinate all actions that will confirm our resolve to resist oppression and war

policy: from activity by all parliamentary delegates and the involvement of all representatives of legal institutions in preventing the escalation of war in order to establish peace and, with it, the necessary conditions for democratic development in Serbia, to massive actions of civil disobedience in order to force the ruling party to rely on all democratic elements in creating policy, both those in Parliament—including the opposition—and the public, and to abandon warring and repressive policy in favor of peace and democracy.

Let's get out of the wing of "internal emigration" and involve ourselves actively, because war and repression are a threat to all of us, regardless of the fact that the battlefields are still (but for how long?) outside our territory!

Slovene President Interviewed on Peace Efforts

92BA0025B Ljubljana NEODVISNI DNEVNIK
in Slovene 21 Sep 91 p 6

[Interview with Slovene President Milan Kucan by Ivanka Mihelcic; place and date not given: "The Revelations Are Hypocrisy"]

[Text] Ljubljana, 21 Sep—The fact is that before the signing of the cease-fire agreement Lord Carrington clearly and loudly indicted Milosevic, Tudjman, and Kadijevic, since he directly stated that they are responsible for everything that is happening today in Croatia. We talked with Milan Kucan, the president of the Presidency of the Slovene Republic, about whether the international public has thus recognized the three people cited as the culprits. He said:

[Kucan] The main reason for the international community's intervention in the Yugoslav crisis is to prevent war and ensure peace. The fact that the international community knows who is responsible has been clear ever since the unfortunate attempt by the troika of ministers in Belgrade to have a peace agreement signed. The troika demanded the signature of the Federal Presidency as the commander in chief of the Army, the Army itself, the Federal Government, and the Republics of Croatia and Serbia. At that time, however, the same as today, Serbia and Milosevic insisted that Serbia was not at war and that it therefore neither had to sign the peace agreement nor guarantee that a cease-fire would be honored. Lord Carrington was persistent, however, and got all three signatories and thereby actually identified them in the same way as it was done by the well-known EC declaration of 27 August.

[Mihelcic] What are the conditions for peace now, generally speaking?

[Kucan] I think that a condition for peace is primarily that the sides involved in the war have to be interested in it and responsible for it. The fact that the cease-fire is being violated and not honored can be explained in two ways: either such an interest does not exist because not all the goals that could be achieved by war have been

achieved—certainly this is true—but it is also possible that the signatories no longer control those who are directly involved in the military conflicts. Our position has always been that no talks, either within Yugoslavia or in The Hague, are possible as long as the war is going on. That is why Minister Rupel also proposed at the last conference that the conference be interrupted until a cease-fire was ensured. Only after that will there be any sense in talking about the conditions for peace and about the future life of people in this unfortunate country, with the starting point, in principle, that all options are equal, and that each republic, with its own citizens, can decide on its own future and on its relations with the other republics.

Disagreement

[Mihelcic] Obviously, the biggest problem is the disagreement in Europe over answering the question of how to ensure a cease-fire in Croatia and whether peace-keeping forces should come to Croatian territory or not. What do you think about this?

[Kucan] It does not seem to me that the problem is whether Europe ought to send peace-keeping forces or not, but rather what conditions should be met so that the peace-keeping forces would even be able to carry out Europe's mission. The forces that would ensure peace in Croatia are not peace-keeping forces; this is instead a question of military intervention against an aggressor. It is precisely on this point that it seems to me that there has been a disagreement in Europe, and possibly there is also a dispute regarding the interests of all those who are crossing each other in this war. The fact is that the operations are being conducted in Croatian territory, and if they want to stop the war, then they have to demand that those who came onto Croatian territory cease their aggressive, offensive, and, if you will, also occupation actions against that republic. That is the only thing that would create the conditions for a cease-fire and finally bring about a dialogue between the Croatia authorities and representatives of the Serbs who live in Croatia. I think, in fact, that the right interlocutors for a democratic solution of the problems are precisely the Serbs in Croatia and the Croatian authorities.

[Mihelcic] You called attention to that some time ago. What were the responses to that warning of yours like?

[Kucan] It is obviously an extremely big problem, for both the Croatian and Serbian leaderships, and particularly for the Serbs in Croatia. I think that everything began to go wrong from Knin on, when the wrong channels of communication were actually established. In fact, there were no talks between Knin and Zagreb, but rather between Knin and Belgrade, and after that between Zagreb and Belgrade. It is also evident from the latter that Milosevic's position, that he is not involved in that war, is unconvincing! That is hypocrisy that can only go over with those who are not familiar with the situation in Yugoslavia. Things would certainly have

taken a different turn if Croatia had achieved recognition of its sovereignty and independence, and if the Serbs in Croatia had been objectively recognized as a minority. Croatia, in fact, in the name of its own democratic attitude, would have had to ensure the whole standard that applies to minorities; and Serbia, following the model of European states, would have gained the status of a parent people, which can use all the European instruments to protect the rights of its minority on the territory of Croatia. That would have been something completely different, even qualitatively, from what is happening now, when the real situation is concealed behind the formal one. This also leaves everything wide open for manipulation.

Markovic's "Revelation"

[Mihelcic] You mentioned hypocrisy, which I would like to associate with Markovic's latest revelations of events in the government leadership. How would you comment on that?

[Kucan] I also think that it is hypocrisy. In fact, some time ago I raised the question in the Federal Presidency of whether the Presidency, as the commander in chief of the Yugoslav Army, knew about the frequent visits to Moscow by high-level Army representatives in January and March 1991, and whether it was familiar with the content of those talks. I have not received an answer to the present day, even though Markovic was also at that meeting. Markovic and I also talked about replacing Kadijevic earlier, since there were sufficient reasons for it; thus now, when the Army's real role has been revealed to the world, it is quite clear that both Markovic and the Federal Executive Council also bear part of the blame. In short, discovering today what was already discovered a long time ago is pure political hypocrisy.

[Mihelcic] Is Markovic trying to save himself in this way?

[Kucan] It is hard to judge these intentions, since everything is very complicated and contradictory. I think that even some time ago Markovic could have had a substantial influence upon the outcome of the Yugoslav crisis if he had in fact clearly told the world that it was no longer possible to continue living together in the same state according to the same model. We proposed a confederation and a Yugoslav economic community of sovereign states. Unfortunately, things developed in a different direction, and now there is no longer even minimal confidence in any sort of community. It is clearly necessary to reconcile ourselves to this, and give the citizens of the individual republics an opportunity to decide on their own future as they wish. Those decisions ought to be respected.

[Mihelcic] When Markovic demanded the resignations of Kadijevic and Brovet, there were concerns that Adzic's becoming the head of the Army would make matters even worse. What do you think about this?

[Kucan] That replacement is also a formal issue, because the Assembly is practically not functioning, and the Federal Presidency also has its own authority in the defense area. The fact is that when the time was more convenient for a replacement, people turned a deaf ear to it. In particular, they had already been deaf for several years to Slovenia's very clear demand that the state's defense minister had to be a civilian. The arguments were of no use. Today it is irreparably too late for certain things in this Yugoslavia. For that reason, replacements of ministers would not help at all.

"Paper Tiger"

[Mihelcic] It is estimated that what the Army is doing now in Croatia is essentially the actual beginning of the end for it, and that it can only persist in insane actions for another 10 days or so. Is it possible to predict something like that truthfully?

[Kucan] I am really not qualified for predictions of this kind, but I have been warning for a long time that the Army is by no means a paper tiger. After the war it had its defensive function, just as it did during the time of the world's division into blocs and the Cold War. Today its role is different. Its problem is that it does not know how to behave in conditions in which it does not have the support of the population, since that is what its concept is built on. The matter is somewhat different in Croatia, of course. In spite of that, I am not convinced that the Army is still even under any sort of central command. In short, it is more of a question for experts, but I think that this war really cannot last long. That is why the reaction by part of Europe, when Croatian defense took away the barracks' electricity and communications, actually also seems unreasonable to me. The fact is that the war is really taking place on Croatia's territory, and that is why it is also necessary to identify both the aggressor and the one who is waging a defensive war. It is clearly not possible in any war to identify as the aggressor the one who is defending himself because he has been attacked. For that reason, discussing whether Croatia's measures against the occupier are civilized and democratic or not, is pure academic speculation at this time and does not have anything to do with real life. On top of all this, it is necessary to know that the measures taken by the Croatian defense are essentially measures that did not cost lives.

[Mihelcic] Slovenia is not experiencing this war as horribly as Croatia. Life here is somehow going on, and events in the Slovene Parliament are also part of this. Everything indicates that we are at the threshold of a parliamentary crisis. How do you assess this?

[Kucan] First of all, let me say something about our attitude toward this war in Croatia. It seems to me that we are to some extent too unaffected. We are clearly forgetting that as long as there is war anywhere in Yugoslavia, we cannot live in the belief that we are guaranteed peace and security. We are living in a situation in which we have to ask what the future Slovene

society should be like, when it is set in the framework of an internationally recognized Slovene state. What is happening in the Slovene Parliament does not promote that goal by any means. I understood, in fact, that we had decided by means of the plebiscite that we would be a European state in every respect. This also includes the criteria of European democracy and a high degree of actual and legal protection for human rights. We decided that we would form a society with the integration of creative, cultural, social, and political forces, but we came to the dilemma of whether to have real integration or a confrontation. This dilemma has actually occurred in the Parliament, and I think that it is not the best sign and the best preface for real independence and for our life in the family of European peoples.

Slovenia Blamed for 'Lebanonization' of Croatia

92BA0013B Belgrade NEDELJNA BORBA
(supplement) in Serbo-Croatian 21-22 Sep 91 p 12

[Article by Laslo Sekelj: "Confederation Bait for the Market: Whether Slovenia Was Driven Out"—first paragraph is NEDELJNA BORBA introduction]

[Text] The confederation proposal of Slovenia was submitted with the prior idea that it would not be accepted. Nothing is proposed in it except that the other (former) Yugoslav republics have an open market for Slovene goods.

The key political message of Janez Drnovsek in the interview with BORBA (of 14 August 1991) is that Slobodan Milosevic's Serbia drove Slovenia out of Yugoslavia. While he was president of the Presidency of the SFRY (May 1988-89), an attempt at Yugoslavia's entry into European institutions was made: the European Community, the EFTA, OECD, and the European Council, and the simultaneous restructuring of the Yugoslav state. The entry into European institutions did not succeed, in Drnovsek's words, because of slow action by the European Community but also because of our internal political reasons and especially the inflexibility of Milosevic's policy when Kosovo is in question.

Drnovsek claims, although he was primarily promoting the interest of Slovenia, that he always represented Yugoslav interests correctly as well. We have no reason not to believe him, especially since he very correctly stated that during his presidency the only solution to the Yugoslav crisis was the integration of Yugoslavia into Europe, since that was a means of transforming Yugoslavia into a modern democratic market state. However, Europe hesitated because Yugoslavia then was not yet a center of crisis.

I would add to these thoughts of Drnovsek that it is indeed a pity that a member of the collective leadership of the state is not aware that one should speak in the present tense when the issue is the beginning of the process of overcoming the structural crisis in Yugoslav society, which is now at the stage of the cutting up of Yugoslavia. Without the direct inclusion of Yugoslavia

in all its parts (and not just Slovenia) in European integration there is no solution to the crisis of the breakup of Yugoslavia.

Flight From the Balkans

In the first half of the 1980's, the crisis of the modernization of Yugoslav society assumed such a form that even Communist politicians did not deny that Yugoslav society was in a deep structural crisis. In Slovenia, this crisis already existed right after the death of president Tito and led to the ascendancy of the trend that supported a separate Slovene way out of the fundamental crisis in Yugoslav society.

From then on, the League of Communists of Slovenia and Slovene representatives in federal bodies became the strongest supporters of the absolute retention of all existing federal arrangements.

In the second half of the 1980's, after the last personnel merry-go-round within the frameworks of the old Titoist regime, this policy assumed a clearly nationalistic nature tied to the myth about some special characteristic of the Slovene people possessed by not a single other Yugoslav people: that the Slovenes are really part of a West European and not a Balkan civilization, that they are really a basic constitutive part of Central Europe and not Yugoslavia.

On this basis, the myth grew about the economic exploitation of Slovenia in Yugoslavia, especially by the undeveloped areas, in which Serbia was included on this occasion, but not when it was scraping along to give to the Federal Fund for the Undeveloped. The policy of absolute defense of the 1974 Constitution, the guiding thought of Slovene Communists when Yugoslavia was in question, led them to give public support to everything that was most gloomy (e.g., Stalinism in Vojvodina, which suddenly assumed the epithet "liberal Vojvodina" in contrast to "conservative," i.e., Milosevic's Serbia), to the most varied "unprincipled coalitions" (with Mikulic, Djuranovic, Zarkovic).

In other words, the League of Communists of Serbia, after Milosevic's assumption of total power in Serbia, directly threatened the very bases of the 1974 Constitution because of the constitutional position of the Serbian provinces. Having seen that because of growing Serbian nationalism it was not possible to preserve the "most progressive constitution in the world," the communist part of today's ruling coalition in Slovenia is turning to the idea of an "asymmetric federation," i.e., the independence of Slovenia in relation to the rest of Yugoslavia within the context of making any decisions, in any domain, that would be binding for Slovenia, but with the complete economic openness of all other federal units toward Slovenia.

End of the Yugoslav State

In the process of the transformation of the Slovene communist oligarchy into a political elite, the idea of an

"asymmetric federation" is of key importance to the understanding of Slovene behavior, since the homogenization of the Slovene political area has been carried out according to this idea, and not according to the idea of European integration. Moreover, the political program under which the Slovene Communists simultaneously joined the preelection campaign and the breaking up first of the League of Communists of Yugoslavia, and, next, the SFRY: "Europe—immediately" is based on the idea of the elimination of every form of the Yugoslav state, not because Milosevic's Serbia did not accept the "asymmetric federation," but because any form of the state-political society within the framework of Yugoslavia was actively (and not just passively) no longer desired. This continuous increase in the level of secessionist nationalism is a normal consequence of a competitive struggle within the national political elites who act on the premise that every other political interest except their own is inimical, and the acceptance of any type of compromise is tantamount to national betrayal.

In order for this policy to be realized it is not sufficient to demolish Serbia, the Serbs, and Milosevic. In other words, it has not been difficult from the Slovene point of view to create an image of Milosevic as an enemy, especially since Milosevic's political team has provided entirely sufficient cause and reason for this. The example cited by Drnovsek is the stubborn rejection of any other solution for solving the constitutional crisis except the classic federation—which in Slovenia has been experienced, probably rightfully, as a tough insistence on a new variation of centralism. However, Serbia and Serbs as enemies, because of historical reasons, lack of respect for borders, and differing but not completely mutually exclusive economic interests, was a policy of short duration. For the demolishing of Yugoslavia it was necessary to find a much deeper and more dangerous confrontation. From then on the rabbit was driven out, while the whole time efforts were made to drive out the fox: confrontation and hostility between Serbs and Croats, Serbia and Croatia, because of the known historical legacy and because of the real exclusivity of nationalistic interests, if the principle of the right of a people to secede is applied.

Precisely the official participation of official Slovenia and Croatia in the breaking up of every Yugoslavia best refutes Drnovsek's claim that Slovenia was driven out of Yugoslavia. First of all, the confederation proposal under which Slovenia, together with Tudjman's Croatia, firmly insisted to the same degree as Serbia on a federation, was submitted with the prior idea that it would not be accepted. Nothing is proposed in it other than that other (former) Yugoslav republics must have an open market for Slovene goods. The proposal itself was made in such a way that had it been accepted, nothing else would have ever been able to function under any circumstances. Secondly, when a program appeared that offered a modern market economy and left the possibility for the democratic transformation of the state with the possibility of a compromise solution of the national problem,

and when that program began to function, Slovenia did everything it could, first to block the program (not accepting that the proposal by the Federal Executive Council to change the Constitution be discussed at all), and next, together with its ally in the previous affair, Serbia, to destroy the program, first economically and then politically (secession). Stubborn egoism did not wish to consider a single voice of reason, or to weigh the fact of dominoes, i.e., the secession of Slovenia as a unilateral act would directly mean the lebanonization of Croatia.

If the fact is also added to everything said above that for at least a year Slovenia, militarily and logistically, prepared a plan for a unilateral secession, then it can rightfully be said that it was not driven out of Yugoslavia but that it did everything to break up Yugoslavia. In that matter, the breaking up of Yugoslavia had the complete support of Milosevic's Serbia since 1988—a fact that both the six-party DEMOS coalition and the Communists took into account—because they did everything in their power to make impossible any other “leader of all Serbs” except an ultranationalistic alternative.

Anti-Serb Statements of Bosnia Foreign Minister

*92BA0013A Sarajevo JAVNOST in Serbo-Croatian
14 Sep 91 p 14*

[Article by M.P.: “When the Minister Goes Crazy: Hey, Silajdzic, You're Great!”—first paragraph is JAVNOST introduction]

[Text] “Put your feet together in order to travel easier” are the words of the innocent one that opened its mouth to swallow a grasshopper. The Minister of Foreign Affairs of Bosnia-Herzegovina, Mr. Silajdzic, flinched before the black-yellow dragon opened its mouth.

The statement of the minister of foreign affairs, Mr. Silajdzic, given to the Vienna media after his visit to Austria that was financed by the Serbian people, first astounded the Serbs and then embittered them. Mr. Silajdzic is paid to represent the interests of all three peoples and all the citizens of Bosnia-Herzegovina, and to work for their well-being. Instead of this, he launched himself into an inadmissible insult of the Serbian people, claiming that “the invasion of Croatia is the same as the invasion of Kuwait by Saddam Husayn.” It is not difficult to conclude which Serbian politician and statesman Mr. Silajdzic wished to equate with Saddam Husayn. We don't doubt that Mr. Silajdzic wished to flatter official Austria with such a statement. We don't doubt that he succeeded in this either, but the Serbian people, after this statement, must ask themselves this question: With whom would Mr. Silajdzic really like to live—with Austrians or Serbs.

The Serbian people understand the need for Mr. Silajdzic to flatter the old masters, imitating before them the satanic ways of the fallen Saddam Husayn. But there is the old saying that it's not good to hit someone who's down, and Mr. Silajdzic should have remembered it in

mentioning the Iraqi head of state. But since the most common flattery is involved, the fact that Mr. Silajdzic never condemned a “live” Saddam in principle is most illustrative. And he had chances [to do it]....

Exchanging theories about the aggressor and the victim in Croatia has already annoyed the Serbian people, and it will soon annoy Europe as well. As to Silajdzic's statement about the referendum which will be carried out regardless of the will of the Serbian people, it's worthwhile saying that the Serbian people are grateful to him for such a statement. Only with this statement has it become clear to the last Serb what kind of fate Mr. Silajdzic has in mind for him in such an allegedly civilized republic as Bosnia-Herzegovina.

If the thought of the Serbs is difficult for Mr. Silajdzic, it is increasingly clear each day how, indeed, it would probably also have to be finally clear to Mr. Silajdzic that no Serb exists any more in Bosnia-Herzegovina who is prepared to entrust his fate to Mr. Silajdzic and “citizens” similar to him. In his statement Mr. Silajdzic easily promises the old Austrian rulers that Bosnia-Herzegovina will also get out of Yugoslavia if Slovenia and Croatia do.

It is a personal privilege of Mr. Silajdzic to prefer Slovenes and Croats, but no one has empowered him to pull 1,360,000 Serbs out of Yugoslavia. That would not “do” even with the help of the peaceful European forces that Mr. Silajdzic is inviting to Yugoslavia.

Instead of this it could happen that the Serbian people will seek the resignation of Mr. Silajdzic. If so, the right to dream about a black-yellow monarchy will certainly not be taken from Mr. Silajdzic, but at least he will not be able to speak in the name of the Serbian people in a tone that is far removed from both the diplomatic and ministerial.

Serbian Journalists' Plight Under Totalitarianism

*92BA0013C Belgrade REPUBLIKA in Serbo-Croatian
16-30 Sep 91 p 4*

[Article by O. Rusovac: “Reporters in the Jaws of ‘Non-Party’ Associations and an Ideology of Genocide: Mental Breakdown”—first paragraph is REPUBLIKA introduction]

[Text] Does occupation threaten Belgrade and will the principal city again have to liberate itself?

Totalitarian regimes and their assistants count on single-mindedness, obedient pressure and the allegiance of their subjects. However, there was no ideal single-mindedness even during the time of Hitler or Tito. Today there's even less. For this reason our totalitarian figures feel insecure. For every revolt there is the belief that the struggle for an uprising is in the middle of quicksand. Every civilian gesture of resistance drives totalitarian figures mad. In their desperate effort to rule souls, they produce stupidity and commit violence.

The trap of totalitarianism is sufficiently large that it offers refuge to men of only an apparent differing mental constitution. There is room in it for optimists and for those who bear the "tragic feeling of life." Only in this way can one interpret the strange (and monstrous) symbiosis and alliance between the optimists who believed, for example, in the quick return of Serbs to Kosovo and the taming of the Albanians, and those who speak about the tragedy of the Serbs, most often recently at mass burials of Serbian bones. They converted the burials into a unique political activity. The misfortune in it is that their political horizon does not extend further than old pits and new crypts. Therefore, what they do is not nobleness (excepting the church which acts in harmony with God's and Christian laws), but a morbid intention whose victims are again Serbs.

New totalitarians are attempting to lead us by means of a dreadful inversion in which the spirit of dead bones will come to life, and live Serbs will be buried in newly opened pits. Creators of the Memorandum are trying to push a prehistoric calculator of bones into our calculation of time, and to reduce us to a primitive man who, with the help of little bones, has tried to solve the riddle.

Perhaps it would be too ambitious to expect anything more modern than 80-year-olds who were educated in the sign of the "writing box" and "school bench," whose literature was stories from the war and on whom a peasant's legacy left an uneradicable mark. What connections can they have with computers? Not only have they not seen them, they have tried to remove them as far as possible from our lives, in which there is increasing confusion, and in which not just we, but most often they, are confused.

The confusion of totalitarians is seen most easily in actions toward reporters. Thus, for example, the nonexisting Association of Reporters of Serbia is warning that more and more reporters and correspondents of Serbian nationality are under pressure in Croatia, driven from their jobs, and "the phenomenon has been observed that some reporters of Croatian nationality are also bearing the brunt." The Association of Reporters of Serbia is announcing that it will make a record of reporters who have fled from Croatia and Slovenia in order to assist them. Not a word in this announcement (5 September) on reporters in Serbia who are outcasts from their editorial staffs and who because of this are gathering at Terazijaska fountain. The Association of Reporters is not offering them help. How, then, will it assist reporters of Croatian nationality about whom it says that they are "bearing the brunt," when these reporters are unwanted in their republics for the same reasons for which numerous reporters have been expelled from Serbian editorial staffs?

Still more hypocritical is the report of the Association of Serbs in Croatia (behind which the "nonparty" Budimir Kosutic stands), which "accepts every constructive criticism" that leads to better personnel solutions on Belgrade television, "but that in a year that has perhaps

been the most difficult for the Serbian people since 1941, when Slovenia and Croatia, with extensive assistance from some foreign circles, are waging an exceptionally dirty media war against Serbia and the Serbian people. Uncontrolled and unsubstantiated attacks on the informational policy of TV Belgrade are obscuring the truth about persecution and suffering...." The Association of Serbs in Croatia says that "critics" (TV Belgrade), intentionally or not, are crossing to the opposite side, are strengthening the arguments of the Croatian and Slovene press and television." This means that "constructive criticism of personnel solutions" is accepted, but "perhaps tomorrow," while it is now necessary only to see that one doesn't fall behind the Slovene and Croatian press. Or, as they consider in the Association, the "unobscured truth about the persecution and suffering and the war of liberation of the people on Serbian territories in the Ustashi state of Croatia" is necessary.

Dusan Kovacevic said one evening at Terazija how partisans occupied Belgrade and Serbia a half a century ago. Kovacevic knows that there were mostly Serbs among them. They brought totalitarianism on their rifles. It seems that Belgrade and Serbia will inevitably experience the presence of Serbs in Croatia as an occupation if their loudspeaker is the Association of Serbs in Croatia. And Belgrade will again seek one day soon to be liberated.

And finally, the academic Ljubomir Tadic, a theoretician on genocide, states in *POLITIKA* of 16 August: "The history of anti-Semitism has sufficiently taught us that the abstract propaganda of pacifism lays out the red carpet for genocide." Those who gather at Terazija—reporters and citizens—do not hide the fact that they are pacifists too. How is it possible then that these reporters who are rebelling not only against forcibly implemented personnel changes but also against the war are being supported and condemned at the same time by Mr. Tadic?

That which is planned and connectable with difficulty in a civilized society is planned and connectable in totalitarianism. This can also explain the phenomenon that a philosopher like Ljubomir Tadic thinks at the same time like the proclaimed adherents of war from the world of politics. This automatically means that our current politicians can also be philosophers. Totalitarianism suits many, since it is impossible to punish the crime and revolution in it. Thus, accounts are never settled until the end. Thus, we are all unhappy.

Effectiveness of Slovene Territorial Defense Cited

92BA0047A Ljubljana DELO in Slovene 4 Oct 91 p 3

[Article by Majda Vukelic: "Territorial Defense Will Be Capable of Effectively Protecting Slovenia's Territorial Integrity"]

[Text] Ljubljana, 3 Oct—Nothing new should happen in the area of defense on 8 October. Everything or almost everything, in fact, happened even before 25 June, and

so the Brioni Declaration and the three-month moratorium introduced by it did not affect Slovene defense affairs. That is why implementation of the legal decisions—the law on defense and protection, and the law on military service—was also continued during the freeze on other independence procedures.

The liberation of the military area from under the Federal authorities began back in September 1990 when the Slovene Assembly passed amendments to the constitutional law, by which our republic assumed jurisdiction over Slovene Territorial defense units. This was followed on 5 October by occupation of the Territorial Defense headquarters, and the well-known denouement. The independence announced in this area also forced other immediate steps. Thus, in March 1991 the Parliament adopted a moratorium on sending Slovene young men to Yugoslav Army units. This did not eliminate the military service obligation, but instead merely redirected it from the JA [Yugoslav army] to Slovene Territorial Defense.

In March, the Assembly passed the law on defense and protection, which regulated the organization, preparation, and functioning of the defense system in the event of a threat to the freedom, independence, and territorial integrity of Slovenia. It also regulated fundamental measures and other security preparations for the elimination of a state of emergency that would threaten the existence of the republic or its constitutional order. It designated as the defense forces Territorial Defense, popular protection, and communications units.

In April the deputies also passed a law on military service that defined the draft obligation, the obligation to perform military service, and the obligation to serve in the reserves. The law also introduced conscientious objection to military service.

The essential innovations brought by the law were:

- Military service lasts for seven months, but the republic Presidency can shorten it by at most 30 days.
- Military service is performed in military units and Slovene internal affairs units.
- A recruit who is opposed to the use of weapons can claim conscientious objection to military service for religious, philosophical, or humanitarian reasons.
- Military service also lasts seven months for those who claim conscientious objection.

Thus, after the expiration of the moratorium, Defense Minister Janez Jansa claims that Territorial Defense will be capable of ensuring the protection of Slovenia's territorial integrity. Slovenia's own armed forces as an instrument for protecting the integrity of the state and effectively controlling its territory are also one of the conditions for the international recognition of Slovenia. In this part of the Balkans, where an armed conflict for which no end is in sight is going on in the immediate vicinity of our border, our own forces are also a guarantee of national security in general, Janez Jansa stated.

There Will Be 1,500 to 2,000 Officers

At this time preparations are under way for enlistment of the first regular generation of recruits; because of financial and spatial limitations, this will mostly start at the beginning of next year. Janez Jansa described the projected outline of the Slovene armed force as follows: "The answer to the question of what the armed forces will be like is based on objective factors, such as the size of the territory, the number of inhabitants, etc. The contingent of recruits in our republics amounts to about 15,000 people per year, which means that 6,000 to 7,000 soldiers will be in the permanent body of recruits in view of the seven or six months of military service. Also included will be the officers who conduct training, and professionals in certain technical branches. Slovenia will have about 1,500 to 2,000 active officers. Slovenia's defense will continue to be based to a large extent upon the reserves, which consist today of about 200,000 trained military recruits. In the future, that number will probably decrease to some extent, but not substantially."

The only branch of service that will continue to exist will be the ground forces; the air force will only be present as an element for the training and support of helicopter units. In spite of this, territorial defense will be capable of successful defense against possible attacks from the air; a certain problem could only be presented by control of the higher levels of the airspace above Slovenia, which will be conducted in peacetime by the Flight Control Administration. In the event of extreme necessity, an autonomous system for defense against possible attacks from the air will also be ensured within a very short time. As far as a navy is concerned, it is out of the question, but a coast guard will probably be formed, which, in addition to the defense aspect, will also handle protection and rescues at sea.

Military training will take place at two training centers where experimental training is already taking place in any case. These are the training centers at Igo near Ljubljana, and Pekre near Maribor, which together admit 350 recruits. Training lasts for three months at these training centers and four months in combat units.

The Yugoslav Army Has To Leave by 18 October

According to the decision by the SFRY Presidency, the last member of the Yugoslav Army has to leave Slovenia's territory by 18 October. In response to a question about what the Defense Ministry would do if that did not happen, Janez Jansa answered, "The contingent of soldiers that is here does not present a great danger from a security standpoint, and at most it presents the potential possibility of a small-scale conflict. We will insist that the Army withdraw by 18 October, but we have to be aware that there are many subject elements present that are obstructing that withdrawal. Now, technically, at least part of the transportation routes are free, and so the Yugoslav Army's withdrawal could continue. The soldiers and officers who are here, however, are not in any great hurry to leave for the crisis centers, since they feel

safer here and are not in a hurry to prepare for departure. In some places they have even taken measures that indicate that they would rather stay in Slovenia through the winter."

Recently the public has been particularly interested in whether it is possible that the Yugoslav Army will intervene in Slovenia after 7 October, especially now that it is quite clear that our republic will not consent to any extension of the moratorium. Janez Jansa does not expect any serious aggression, although they are prepared for it. A danger exists if Croatia is defeated militarily, since we would again get an aggressor directly next to our borders. We do not expect this to happen, however. Now, to be sure, the Army is involved in a major offensive in southern Dalmatia and eastern Slavonia, where the battles for the border of Greater Serbia are being waged. This conflict cannot be expected to end quickly without the effective political involvement of international factors. There is also no great possibility that one side or the other would win a military victory in these conflicts, since the different potentials are equivalent at least to the extent that this is impossible, the Slovene defense minister emphasized.

Wartime Economic Trends Reviewed

92BA0041B Belgrade EKONOMSKA POLITIKA
in Serbo-Croatian 23 Sep 91 pp 21-22

[Article by Tomislav Dumezic: "Economy Amidst Mortar Shells"—first paragraph is EKONOMSKA POLITIKA introduction]

[Text] Hyperinflation is inevitable. We are accelerating our return to a socialist market-planned economy. The level of foreign trade will continue to decline. The national banks of the republics are taking increasingly independent action.

Last year's decline in the country's production and social product was the predominant consequence of opening up the market as a function of accelerating economic restructuring in terms of ownership and quality. Industrial production dropped by 11 percent compared to 1989, the volume of construction works by 7 percent, retail trade by 8 percent, tourist days by 12 percent (whereby the decline was the same for domestic and foreign tourists), etc. The Federal Government and its prime minister were blamed for these results, based on allegations that markets and/or imports were not opened up selectively and that monetary policy was too restrictive.

As of this year, the Yugoslav market is no longer open. Even if enterprises have foreign exchange and the right to import at their disposal, the filling of orders for payments on imports is very sloppy due to the general shortage of foreign exchange. In this way, we are rapidly returning to the famous socialist market-planned economy where import rights are given out and enterprises are determined to be fit or unfit for engaging in particular foreign trade transactions, where foreign exchange is kept at foreign or domestic enterprises

abroad, etc. Nevertheless, production has not increased. Even during the first half of this year, and thus prior to the open military clashes and massive destruction, production reflects the same trend seen the previous year: It even declined on a significantly greater and faster scale than last year. This is indicated by the following figures for the period from January to June of this year, compared to the same period in 1990: Industrial production declined by an additional 17 percent, the volume of construction works by 19 percent, transportation by 17 percent, and tourist days by 44 percent, including 68 percent for foreigners.

Since the war broke out, economic catastrophe has seemed inevitable. There were no foreign tourists throughout the entire summer season; foreign-exchange remittances from workers and emigres also did not get through, nor was there an influx of fresh money from abroad in the form of credits and direct investment. Yugoslavia is practically incapable of fulfilling its financial obligations towards foreign creditors. Under such circumstances, it is difficult to find the real reasons influencing the fact that the volume of foreign trade has nevertheless decreased modestly and that the inflation rate is not that high (it is still below 10 percent a month, although it is certain that there will be double-digit inflation in September).

Deficit Reduction

During the period from 1 January through 31 August of this year, goods valued at \$11.3 billion were exported from Yugoslavia. Compared to the same period last year, the total volume of exports was 6 percent less. Total imports amounted to \$11.9 billion, where the drop compared to the previous year was 8.4 percent.

It is characteristic that there is a pronounced trend towards a gradual decline in overall foreign trade. For example, total exports in August of this year were 7.8 percent less than in the same month of last year. Because of the country's clearly unfavorable financial situation, minimal foreign-exchange reserves, and the practical blockade on Yugoslavia in terms of inflows and utilization of already approved foreign credits, the volume of foreign trade will continue to decline in the future. Moreover, the decline in imports will be even more pronounced because there are no reserves to finance the deficit in the foreign-trade balance. A reduction in the deficit in trade with foreign countries was also present during the first eight months.

The total foreign-trade deficit during the period from January to August 1990 came to \$968 million. During the same period of this year, the deficit dropped to \$593 million. It is characteristic that the decline in exports is primarily the result of a decline in sales to the USSR, which followed as a consequence of the transition from the clearing method of account settlement. Otherwise, exports to developed countries essentially remained at

the same level achieved during the same period of last year, while exports to developing countries increased significantly.

The greatest exports were achieved in the iron and steel industry, machine-building, the production of means of transportation, the production of electrical machines and equipment, chemical production, finished textile production, and the production of leather footwear and fancy goods. The greatest single exporter was the textile industry, or finished textile production. Exports there amounted to \$1.8 billion, and were 15.4 percent greater than during the same period of last year. There was also a considerable increase in exports of means of transportation (total exports during the first eight months of this year were \$10.1 billion, an increase of 30.6 percent over the same period of last year). Of the major exporters, the greatest decline in sales abroad was experienced by leather footwear and fancy goods. Exports amounted to \$574 million, which is 26.1 percent less than during the same period last year. The decline is the result of a significance drop in the volume of sales on the USSR market.

The economy of Slovenia continues to be primarily oriented toward foreign trade. It accounted for 27.2 percent of total exports from Yugoslavia and 26 percent of total exports. Its foreign-trade balance is practically even. The Bosnia-Herzegovinan economy has the greatest foreign-trade surplus, accounting for 14.9 percent of total exports and 10.3 percent of total imports. The Croatian economy has the greatest deficit (\$402 million).

A decline in the volume of foreign trade is inevitable through the end of this year. It is certain that the decline in imports will be more intensive, because not one single purchase will be possible abroad without an influx based on exports first being realized. In addition, part of the foreign exchange gained from exports will be used to pay off minor debts and to finance the war.

Freeing Money

Inflation is amazingly low despite the discontinuation of the restrictive monetary-credit policy, the decline in imports and domestic production, the lack of controls over the actions of the national banks of the republics, and the deficit financing of the Federation, and despite the current state of war and realistically pessimistic expectations. Retail prices in August of this year were 8 percent higher than in July. Compared to the same month of last year, prices in August were 116 percent higher, while compared to December they were 75 percent higher. This mild increase in prices is not in keeping with the country's economic and financial situation. It would be normal for signs of hyperinflation to appear as early as August. Naturally, hyperinflation is inevitable, as is the complete suspension of the market throughout most of the country.

Given the war situation, basic monetary aggregates will also influence the rise in inflation. The fact that the

restrictive monetary policy has essentially been abandoned is indicated by figures relating to the first half of this year. Total credits used by the economy in February of this year amounted to 372 billion dinars, only to increase to 490 billion dinars in May. An increase in both short-term and long-term bank credits is characteristic. Moreover, the rise in long-term credits was significantly faster: they increase from 189 billion dinars in March of this year to 245 billion in May.

Parallel to the growth of credits is the growth of the money supply. The money supply (M1) increased from 135 billion dinars in January of this year to 165 billion in May, while cash in circulation increased from 49 to 61 billion dinars. It is certain that both bank credits and the money supply have continued their accelerated growth. The insolvency of the economy is no longer such an acute problem. This, however, has not effected an improvement in the financial structure of the economy. On the contrary, the financial structure of the economy continues to worsen, because current losses are growing, as is the absolute lack of present and long-term capital to finance normal business. In practical terms, enterprises are utterly dependent on banks, or rather on bank credits, and that means (based on the position of banks within the system) on government institutions.

An increase in public spending especially should influence the rise in inflation. During the first six months of this year, the total revenues for the budget, SIZ's [self-managed communities of interest], and funds of social activities, as well as for other communities of interest and state funds, amounted to 291 billion dinars, which is 44 percent higher than the level achieved during the first half of last year. Naturally, the growth in public spending is less than inflation, which should mean that total public spending has declined in real terms. The actual situation is quite the opposite; a large part of public spending, and not only by the Federation, is being financed by currency issues due to the practical collapse of the country's financial system.

The greatest increase has been seen in revenues for classical state spending (91 percent). However, budgetary spending is significantly greater than actual revenues, because a large part is being financed directly by issuing currency—the Federation through indebtedness to the National Bank (naturally without any repayment obligation) and the republics through indebtedness to the national banks of the republics. Even with this, budgetary spending calculated on the basis of actual revenues has increased its share of overall public spending from the 32.6 percent that it was during the first half of last year to 43.1 percent during the period from January to June of this year.

Since the Federation is failing to collect not only the registration fee from the republics and provinces, but also its own export revenues, it has turned chiefly towards deficit-based, or inflationary financing.

There is even a nominal reduction in the total revenues allotted in the federal budget, by 31 percent. The real decline amounts to over 60 percent. There has also been a relative and real decline in revenues of SIZ's and funds, and this relates first and foremost to resources earmarked for stimulating exports. The greatest increase is in revenues of the republican budgets (243 percent). The share of republican budgets in overall budgetary spending has increased from 27.2 percent to 56.4 percent. The share of resources allotted in the federal budget has decreased from 60.9 percent during the first half of last year to only 25.3 percent during the period from January to June of this year.

The Federation is being financed increasingly by currency issues. Even today, this privilege is not held exclusively by the Federation. The republics, too, are using the resource of currency issues, and the national banks of the republics are taking increasingly independent action. In this way, money will eventually be freed of all classical restraints. There will be enough of it for state institutions; the only problem is that it will not have buying power. Another problem is that there is only one institution for printing new money, located in Belgrade. It is likely that a practical solution will also be found for this problem, which will clearly become acute in Croatia and Slovenia especially.

Bosnia-Herzegovina War Economic Damages

92BA0041A Belgrade BORBA in Serbo-Croatian
30 Sep 91 p 12

[Article by N. Buturovic: "Unusual Appeal by Bosnia-Herzegovinan Business People: Save Us—Declare War!"—first paragraph is BORBA introduction]

[Text] The director of UNIS [Associated Metal Works], Rafael Primorac, who uttered the statement contained in the headline, contends that during a time when "tribal wars are being waged, the attitude towards the economy is also tribal." Bozidar Matic, the director of Energoprojekt: If all Kalashnikovs were to be melted down at the Zenica ironworks, then we would once again have exports equivalent to 10 years ago.

What should one think, do, and expect in a country where completely serious, professional, respected people from the economy advise and recommend to the government: If you cannot bring back peace, then save us—declare war? The director of Sarajevo's UNIS has been so bold as to say this very thing.

"The situation is one of war, a tribal struggle is under way in our country, and the attitude towards the economy is tribal. But unfortunately, we are part of the international division of labor. If war is declared, then the rules of war will apply to the economy as well," he said at a meeting of around 90 business people organized by the republican Economic Chamber and the B-H [Bosnia-Herzegovina] government in order to see how to emerge from economic and societal collapse with as little damage as possible.

Blockades and Shortages

Bozidar Matic, the director of Energoinvest, one of the biggest local export companies, confirms that it would be good and useful to acknowledge and declare to the world that we are at war.

Energoinvest has estimated that it will export goods valued at around \$700 million this year. But contracts are being suspended and cancelled every day, and access to bidding has become more difficult. Some overseas firms are even refusing correspondence. There are also some that will demand compensation because the agreed transactions were not completed or begun on time.

"Allowances for acts of God cannot be considered," says Matic, "because war has not been declared. And if all our idiots were to turn in their Kalashnikovs today, so that we could melt them down at the Zenica ironworks, the number of agreed Energoinvest transactions to foreign countries would once again be equivalent to that of 10 years ago."

The modern business world does not like war, but it respects it and has rules for how to deal with countries in which artillery is rumbling. No such rules apply to our country, which is why the price of the undeclared but de facto war will be much greater than it appears at first glance.

While the political and military situation around and in B-H has become red-hot, the economy of this republic has cooled off and screeched to a halt. These days, it is neither dead nor alive. No one knows how many factories are lying idle because there are no raw materials or because workers are not showing up because of fear of the war or because they have been mobilized by the Army, paramilitary units, or similar units.

It is known, however, that paralysis has gripped both cargo and passenger transportation. The barricades were the initial cause. Then, they began to blow up the bridges that join B-H to Croatia, after which Ploce Harbor was blockaded, and the Ploce-Sarajevo-Samac railroad line was mined at Metkovic. Finally, there was no more gasoline.

"The situation is catastrophic. There are 2,500 loaded train cars sitting in train stations (300 foreign ones), and each day it is possible for us to move only a few trains. Everyone is giving expert explanations for inexpert affairs, everything is completely and excessively political," says B-H Minister of Transportation Momo Krsticevic angrily.

Sarajevans Threatened by Cold

Bosnia-Herzegovinans are in fact hostages in their own country. At least 10,000 Zenica iron and steel workers are worried about whether or not imported coal for coke will arrive. The situation in Lukavac is similar. If the furnaces are extinguished, then there will be hell to pay, because who knows when they will be able to afford the

several hundred thousand dollars necessary for overhauling and restarting them.

Miners are issuing serious warnings—even if there is no gunfire in the cities, there will not be enough coal for heating. If the Russians are not immediately paid the \$38 million debt for gas, then at least 100,000 Sarajevans will freeze. Fortunately, the hydroelectric lakes are full.

Soon, there will be no medicine whatsoever. Diabetics are in a panic, looking for connections with anyone who has set aside insulin "for a rainy day."

Bosnia is not only losing and suffering because of the war that is taking place around it and seething within it, it is also financing the war against its will. In the words of Prime Minister Juri Pelivan, B-H is in an inequitable position in terms of utilizing central financing sources. Prime-issue currency is sent to certain regions and to the JNA [Yugoslav People's Army], while all other needs are deemed secondary. The major outflow of resources from

this republic and insolvency have been exhausting us for two months now, says Pelivan.

Because of all this, grabbing at straws and insisting on rules, even if they are rules of war, is completely natural. Because declaring war would mean having an excuse for unfulfilled agreements in business dealings with the rest of the world. And that alone would be an asset.

[Box, p 12]

Damage

In July, it was estimated that the direct material damage of Yugoslavia's "neither war nor peace" to the B-H economy was around \$300 million. Since then, that figure has increased geometrically. Trailer trucks with iron and trucks with UNIS's "Golds" have been lost on roads throughout Croatia as if swallowed up by the earth. Of 40 Energoinvest containers of fittings shipped out to the United States, five have been found in Rijeka, eight in Doboje, and no one knows where the others are.

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5285 FORT ROYAL RD
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